Alberta Legislature

Annual Report of the Auditor General 1987-88

Alberta Legislature

Office of the Auditor General

Mr. F.A. Stewart, MLA
Chairman
Select Standing Committee
on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1988, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

Donald D. Salmon

CA
Auditor General

Edmonton, Alberta
January 16, 1989

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REPORT OF THE AUDITOR GENERAL OF ALBERTA

FOR THE YEAR ENDED

MARCH 31, 1988

SECTION 1

1.1 INTRODUCTION AND OVERALL ASSESSMENT

1.1.1 This report is issued pursuant to section 19 of the Auditor General Act. It is my third annual report to the Legislative Assembly of Alberta and the tenth such report issued by the Auditor General.

Although this report is for the year ended March 31, 1988, some of the observations and recommendations it contains were the result of audit work carried out up to the date the report was signed.

Section 2 of the report outlines the audit activities undertaken for each government department and agency. In reporting on the work of my Office under section 19(1)(a) of the Act, I have included the significant audit observations and recommendations that were reported to management of the various entities. The action taken or shortly to be taken in response to these recommendations will be reviewed during next year's audits. The recommendations that I consider to be most significant and particularly warrant the attention of the Legislative Assembly are numbered and shown in bold type.

Section 3 of the report provides an explanation of the auditing carried out and the criteria that I use when deciding which audit observations and recommendations to report to the Legislative Assembly. It also contains a summary of the audit report reservations issued for 1987-88, and a brief commentary on the Province's operating results. Section 4 describes the responsibilities, audit approaches and organization of my Office.

Section 19 of the Auditor General Act prescribes the matters that must be included in this report, as well as those matters where reporting discretion is allowed. Most reportable audit observations are shortcomings and irregularities such as systems weaknesses, control deficiencies, non-compliance with legislation, and unsatisfactory accounting and reporting practices. This report, therefore, must be viewed as a report by exception. It is not a balanced evaluation of the Province's financial administration.

Overall Assessment

1.1.2 Section 2 of this report shows that relatively few of the over three hundred audits conducted by my Office for the 1987-88 fiscal year resulted in observations or recommendations significant enough, in my opinion, to be brought to the attention of the Legislative Assembly. This indicates that the Province's financial administration is sound. Although I am generally satisfied with the Government's administration of the Province's financial affairs during 1987-88, I believe that there is still scope for improvement as evidenced by the audit observations and recommendations contained in this report.

Acknowledgements

1.1.3 My responsibilities are discharged more easily with the ready co-operation of those whose affairs are audited. For this reason, I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management of departments and agencies.

Furthermore, pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office, I received all the information, reports and explanations that were required.

Donald D. Salmon

CA
Auditor General

Edmonton, Alberta
January 3, 1989

2 AUDIT COVERAGE, OBSERVATIONS AND RECOMMENDATIONS

2.1 INTRODUCTION

2.1.1 This section of the report explains the extent of the audit work undertaken and includes the significant observations and recommendations that were reported to management as a result of that work.

Recommendations

2.1.2 The audit observations and recommendations in this report are those which, in my opinion, are significant and best illustrate the work of my Office. The most significant recommendations are numbered and printed in bold type.

2.2 CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE

2.2.1 The Province's 1987-88 consolidated financial statements are published in the public accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them. Section 3.4 of this report contains commentary on the consolidation methods used, together with selected consolidated operating statistics.

I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1988. My report thereon is reproduced in section 3.3 of this report.

Most of the figures that make up the Province's consolidated statements are audited during the annual audits of the various departments, funds and agencies that are consolidated. Observations and recommendations arising from those audits are reported in the ensuing sections of this report. The following observations and recommendations arose out of the audit of the consolidation process and the form of the consolidated statements.

Pension liabilities

The Province continues to exclude from the calculation of its financial net worth (consolidated net assets), the effect of its full liability for future pension obligations.

In my 1986-87 annual report (section 2.2.1), I recommended that the Provincial Treasurer again reconsider reflecting the unrecorded liability arising from the various pension plans administered and/or guaranteed by the Province as a liability in the financial statements of the Province.

The Government responded to this recommendation by stating that its current practice of disclosing pension obligations in a note to the financial statements is appropriate. I agree that the note to the financial statements provides the information required to understand the amount of the Province's pension obligations. However, the note does not indicate the impact the liabilities may have on the Province's future cash requirements and its ability to meet its financial obligations, both long and short-term.

In November, 1988, the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants (CICA) issued a statement containing recommendations for accounting for pension obligations in government financial statements. The statement also deals with implementing the accounting recommendations and, therefore, there is now guidance from the CICA on accounting for pension obligations by governments.

The PSAAC statement supports my prior years' recommendations of reflecting the pension obligations of the Province as a liability in the financial statements.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I noted the issuance of a Public Sector Accounting Statement — ACCOUNTING FOR EMPLOYEE PENSION OBLIGATIONS IN GOVERNMENT FINANCIAL STATEMENTS — and again made the following recommendation:

Recommendation No. 1

It is recommended that the Provincial Treasurer include the unrecorded liability for pension obligations arising from the various pension plans administered and/or guaranteed by the Province as a liability in the financial statements of the Province.

Agencies not consolidated

The consolidated financial statements do not include the Provincially- owned universities, colleges, technical institutes and hospitals. Therefore, they do not present a complete picture of the Province's financial affairs.

In previous annual reports, I recommended that these entities be included in the Province's consolidated financial statements. In rejecting my recommendation, the Provincial Treasurer stated that the Financial Administration Act does not require them to be consolidated, and that they are fully autonomous Board-governed entities in whose management and administration the Government has no involvement.

This response does not address the problem of the incomplete state of the Province's consolidated financial statements. Furthermore, the Province has the power to exercise complete control over these entities since it owns them, appoints a majority of their board members, and funds most of their operations.

In November 1988, PSAAC issued a Public Sector Accounting Statement entitled DEFINING THE GOVERNMENT REPORTING ENTITY. In this context, the government reporting entity comprises the entities whose financial affairs and resources should be accounted for in a government's summary (i.e. consolidated) financial statements.

In the Statement, PSAAC states that "the government reporting entity should comprise the organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and which are owned or controlled by the government."

In supporting this assertion, PSAAC uses much of the rationale that I have previously used to support my recommendation that the Provincially-owned universities, colleges, technical institutes and hospitals should be consolidated. For example, it stresses that accountability is the cornerstone for determining which entities to consolidate. Accountable entities are those which receive their operating authority from incorporating legislation and are subject to accountability provisions, such as the requirement to submit annual reports containing audited financial statements to their legislature. All of these apply to the Provincially-owned universities, colleges, technical institutes and hospitals.

PSAAC's Statement mentions universities and hospitals specifically. It acknowledges that most universities and hospitals will not form part of the government reporting entity, but states that provincially-owned or controlled universities and hospitals should be included. The universities and hospitals that I am suggesting should be included are all provincially-owned.

In light of the above, I repeated the following recommendation in a management letter to the Deputy Provincial Treasurer, Management and Control, at the conclusion of the audit:

Recommendation No. 2

It is recommended that, in future, the Provincial Treasurer include the Provincially-owned universities, colleges, technical institutes and hospitals in the consolidated financial statements of the Province.

2.3 LEGISLATIVE ASSEMBLY

Of the matters reported to management at the conclusion of the audits of the Department's various Offices, none warrant inclusion in this report.

2.3.1 Financial audits of the following were completed for the year ended March 31, 1988:

Legislative Assembly Office
Office of the Chief Electoral Officer
Office of the Ombudsman

2.3.2 **Office of the Auditor General** — year ended March 31, 1988

The financial statement of the Office of the Auditor General for the year ended March 31, 1988 was audited by a firm of Chartered Accountants appointed by the Select Standing Committee on Legislative Offices. The financial statement is published in section 8 of the public accounts of the Province.

2.4 ADVANCED EDUCATION

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.4.1 **Department of Advanced Education** — year ended March 31, 1988

The annual financial audit was extended to include the following:

—An examination of the system used to control the acquisition and use of airline travel bonus points by Departmental employees.

—An examination of the system used by Alberta Vocational Centres to decide whether educational services should be provided through contracts with private sector organizations.

— An examination of the system used by the Department to determine the possible use by Alberta Vocational Centres of the remote data entry facility of the Province's central accounting system.

— An examination of certain systems of internal control over the operations of the Alberta Vocational Centres, Edmonton and Lac La Biche.

— Audits of the following claims under cost-sharing agreements with the Government of Canada:

  — Statements of Claim for Language Textbooks for the years ended March 31,1987 and 1988.

  — Statements of Claim for Citizenship and Language Instruction for the years ended March 31,1987 and 1988.

  — National Training Agreement Certification of Costs for the year ended March 31,1986.

Observations from Extended Audit Work

Alberta Vocational Centre, Edmonton -- The Centre needs to improve its systems of control over fixed assets, cafeteria operations and revenues.

At the time of the audit, the fixed asset register was incomplete and unreconciled and physical counts had not been performed. Regarding the cafeteria, there were few controls over inventory and there was no measurement of performance. Supervision of revenues was weak because incompatible duties were performed by one person.

In a management letter to the President at the conclusion of the audit, it was recommended that the Centre comply with the Treasury Department's Accounting and Financial Control Manual with respect to fixed asset and inventory control. It was also recommended that the Centre examine the cafeteria gross profit margin monthly and reallocate incompatible revenue control duties.

Alberta Vocational Centre, Lac La Biche — The centre needs to improve its system of control over cafeteria operations.

Kitchen staff do not sign delivery documents to evidence receipt of food and beverages in the kitchen. Also, physical controls over the kitchen store are inadequate. Management has not established a policy for the level of recovery of food costs and the Centre is charging lower prices for some of its meals than is permitted by the Departmental Regulation.

In a management letter to the President at the conclusion of the audit, it was recommended that kitchen staff sign food delivery documents, and that Management develop a policy on the percentage of food costs to be recovered.

Observations from Financial Audit Work

Common Information System — The development of this system was completed during the year. A post-implementation review was not carried out.

The Common Information System was developed to provide the Department with information on enrollments in higher educational institutions and to identify student and program characteristics. It is a significant management information system which is likely to be indispensable to the Department in meeting its overall management information needs.

A post-implementation review of this system would be useful to highlight differences between the original objectives for the system and what was actually accomplished. More importantly, however, a review may also indicate that further development to the system is required. Further development would be assessed in the light of current information requirements. For example, program information

could be enhanced by providing program cost data. The review should be carried out in accordance with Public Works, Supply and Services EDP Practices and Guidelines.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department perform a post-implementation review of the Common Information System, which should include an assessment of the need for any further development. Progress in this regard will be reviewed during future audits.

Full-time equivalent students — The Department has not finalized a complete reporting system for the production of reliable and consistent information on enrolments in public colleges and technical institutes.

In my 1986-87 annual report (section 2.4.1), I recommended that the Department establish and maintain a reporting system to produce reliable and consistent information on enrolments in the public colleges and technical institutes. The Department has developed the Common Information System which is designed to compile and analyze the enrolment data. It has also drafted a Credit Enrolment Reporting Manual which is designed to assist in achieving reliability and consistency in the preparation of enrolment data. I acknowledge the action taken by the Department in this matter, however, the Manual has not been finalized.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department complete the reporting system to produce reliable and consistent information on enrolments in the public colleges and technical institutes by finalizing the Credit Enrolment Reporting Manual.

Investment of surplus funds — Legislative amendments to allow public colleges and technical institutes to invest in the Consolidated Cash Investment Trust Fund (CCITF) have still not been effected.

The Government agreed in October 1984 that it is desirable to permit these entities to invest their surplus funds in the CCITF. However, although the necessary amendments have been drafted, they have not yet been introduced in the Legislative Assembly.

Because the public colleges and technical institutes are still not permitted to invest in the CCITF, it was necessary to repeat the recommendation made in my 1986-87 annual report (section 2.4.1)

In a management letter to the Deputy Minister of Advanced Education at the conclusion of the audit, I made the following recommendation:

Recommendation No. 3

It is again recommended that the Minister of Advanced Education seek amendments to the Colleges Act and the Technical Institutes Act to allow public colleges and technical institutes to invest in the Consolidated Cash Investment Trust Fund.

Financial reserves — Statutes under which higher education institutions operate allow them to establish financial reserves, but are not specific as to how transfers to reserves and expenditures from amounts previously appropriated to reserves should be approved and controlled.

In my 1986-87 annual report (section 2.4.1), I recommended that the Department finalize procedures and guidelines for acquiring the information needed to facilitate the concurrence of the Minister to the establishment and utilization of financial reserves by higher education institutions.

It is the view of this Office that the Minister should be informed by each institution of its proposed reserve transactions. I understand that the Department has drafted procedures designed to meet my concerns, but this document has not yet been finalized. Due to the significance of the financial reserves of the higher education institutions, I again urge that this matter be finalized as quickly as possible.

At March 1988, financial reserves of the universities and the Banff Centre totalled approximately $59 million (1987 $59 million). The public colleges and technical institutes financial reserves at June 1988 totalled approximately $33 million (1987 $27 million). This money came mainly from unused annual grants and is available for use at the discretion of the boards of the various institutions.

I again included the following recommendation in my 1987-88 management letter to the Deputy Minister:

Recommendation No. 4

It is recommended that the Department of Advanced Education finalize procedures and guidelines for acquiring the information needed to facilitate the concurrence of the Minister to the establishment and utilization of financial reserves by higher education institutions.

2.4.2 **Students Finance Board** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— A further examination of the systems used by the Board to verify the accuracy and eligibility of student loan applications.

— A further examination of the Board's data processing contingency plans.

Observations from Extended Audit Work

Verification of loan application data — There remains considerable scope for improvement in the verification of data supporting student loan applications.

The Board plans to test 1987-88 awards in a manner similar to that used for the 1986-87 awards. This plan may not, however, provide sufficient coverage.

For the 1986-87 awards, the Board examined 1,500 applications out of a total of approximately 50,000 applications. The sample was drawn from a group of 16,000 students applying for both a 1986-87 loan and remission of outstanding loans. About one quarter of the applications examined revealed overpayments, and remissions otherwise payable were reduced by $625,000. Although the sample was not selected or evaluated using statistical techniques, the Audit Office estimates that for the group tested total overpayments could be approximately $4 million.

The Board is not performing its verification in a way that permits an objective assessment of the deterrent effect of its procedures. It would benefit from:

— selecting a representative sample from all awards for verification using statistical sample selection and evaluation techniques,
— verifying all eligibility, cost and resource data on sample awards,
— analyzing the results of verification procedures for the year and suggesting improvement of procedures for subsequent years, and
— comparing the cost and benefits of each verification project. An audit estimate for 1986-87, indicates that there was $8 of direct benefit in the form of reduced remissions, for each $1 of direct staff cost.

In a management letter to the Chairman of the Board at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 5

It is recommended that the Students Finance Board develop a comprehensive plan for the annual verification of student loan applications. It is also recommended that the Board reconsider the nature and extent of planned verification for 1987-88 awards.

2.4.3 A financial audit of the **Students Loan Fund** was also completed for the year ended March 31, 1988.

2.4.4 UNIVERSITIES, RELATED ENTITIES AND THE BANFF CENTRE

The Provincially-owned universities, related entities and the Banff Centre operate under the authority of the Universities Act and the Banff Centre Act respectively. The financial statements of these Provincial agencies are not published in the public accounts, nor are they included in the Province's consolidated financial statements. The Auditor General has commented on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the aforementioned Acts, tables the audited financial statements of these agencies each year in the Legislative Assembly.

2.4.5 **Athabasca University** — year ended March 31, 1988

The annual financial audit, which was not complete as of the date of this report (see below), was extended to include:

— An examination of the procedures used to control the development of the University's new computer-based Institutional Student Information System.

— An audit of the Project Claim Report for the year ended February 29, 1988 in respect of the Project, Training the Trainers: An ISD Approach.

Observations from Financial Audit Work

Fixed assets — Accounting and control systems for fixed assets are deficient.

In my 1986-87 annual report (section 2.4.5), I expressed concern that the University's systems for controlling and safeguarding fixed assets were inadequate. I recommended that the University assign a high priority to effect adequate control and to remedy identified deficiencies.

The deficiencies previously reported still exist. The general ledger and the fixed asset record system have not been reconciled, and the latter contains many inaccuracies and omissions. Consequently, it cannot be relied upon.

The unreliability of the fixed asset record system precluded adequate verification of furnishings and equipment.

The University is currently investigating the differences between the general ledger and the fixed asset record system, and is updating the records as necessary. Upon completion of this task, the audit of the University will be concluded.

Annual audit — The University was not prepared for the annual audit. Had the University been prepared, the audit could have been completed earlier and at less cost.

It is acknowledged that the University had to overcome problems associated with the newly implemented financial system and the loss of experienced staff. However, these problems should not have affected standard year-end procedures. A financial audit of the University cannot be completed in a timely manner and at reasonable cost unless draft financial statements are prepared on schedule, together with all necessary documentary support.

In a management letter to the Vice President, Finance and Administration, it was recommended that Financial Services establish and document procedures to facilitate the timely completion of future audits.

Costing systems — The University needs to improve its costing systems.

It is important that systems exist which can identify and accumulate all costs incurred on cost-shared projects so that Management can monitor and control these costs to ensure that they are shared properly.

During the year, the Audit Office was requested to audit a Project Claim Report for the Project, Training the Trainers: An ISD Approach. It was necessary to issue a reservation of opinion because the Audit Office was unable to substantiate an allocation to this cost-shared project of certain payroll and administrative costs. This qualification was a result of the lack of cost records for cost-shared projects.

The University is the administrator of the Canadian Distance Learning Development Centre, a consortium comprising the University and five other members. The University's 'investment' in this consortium is by way of contributions-in-kind. For the University to account satisfactorily for these contributions-in-kind, it needs to develop and implement costing systems.

In a management letter to the University's Vice-President, Finance and Administration, it was recommended that the necessary policies be developed, and enhancements to the existing accounting systems be made, to enable the University to monitor and account for its involvement in cost-shared projects.

Observations from Extended Audit Work

There are weaknesses in the University's systems development process.

As part of the process for developing in-house computer systems, the University does not have procedures to check that:

— approval is given to a project only when all elements essential for the development of a complete system are present,

— only approved elements of a system are developed,

— cost/benefit analyses relating to proposed new systems contain all the relevant costs, and

— post implementation reviews are carried out on all completed projects.

In a management letter to the Vice-President, Finance and Administration, it was recommended that the University improve its systems development process.

2.4.6 **The University of Calgary** — year ended March 31, 1988

The annual financial audit was extended to include a preliminary examination of the mandate and operations of the University's internal audit function.

Observations from Financial Audit Work

Electronic Data Processing — In my previous report (section 2.4.6), I commented that:

— responsibility for EDP disaster recovery needed to be clearly assigned and a formal EDP disaster recovery plan be developed, documented and tested,

— the University would benefit from a formalized long-range strategic EDP planning process,

— the University would benefit from a more formalized control process for computer system development, and

— there was a need for the University to conduct a detailed EDP security review to assess the effectiveness of existing access controls. There was also a need for overall system security to be clearly assigned to an individual with no day-to-day operating or programming responsibility.

Concerns of this nature cannot be resolved in one year. I am pleased to report that the University is taking appropriate action to correct deficiencies and I am satisfied with the progress made to date. Progress will be monitored during future audits.

Fixed asset disposals — Assets have been traded-in but not removed from the financial records.

In the past few years there have been instances where assets were traded-in but were not removed from the Capital Inventory List. Examples are computer equipment which continued to be included on the Capital Inventory, at $1.4 and $1.2 million respectively, after the equipment had been traded-in. It appears that these trade-ins were negotiated by senior University Management in 1983 and 1984, but that appropriate documentation was not prepared and information was not provided to the capital inventory staff.

These errors were discovered during the physical verification conducted by the Capital Equipment Inventory Section of the Controller's Office and were recorded in their deficiency list. However, these items remained on this list for over two years before they were cleared.

In a management letter to the Vice President, Finance & Services, at the conclusion of the audit, I made the following recommendation:

Recommendation No. 6

It is recommended that Management of the University of Calgary ensure that the procedures to record the trade-in of equipment are followed. It is also recommended that major deficiencies noted during the physical verification of assets be investigated and cleared promptly.

2.4.7 **The University of Alberta** — year ended March 31, 1988

The annual financial audit was extended to include:

— An examination of the contract negotiation and approval procedures and controls, and financial reporting and monitoring of subsidiaries, research centres and other affiliated entities of the University.

— An examination of the procedures and controls in place to enable the President's Advisory Committee on Campus Reviews (PACCR) to evaluate academic and administrative units of the University.

Observations from Extended Audit Work

Financial reporting and monitoring of subsidiaries and affiliated entities — An overall system for the initiation and negotiation of contracts, maintenance of proper documentation and monitoring of the entities is not in place. Several deficiencies were observed in those elements of the system which do exist.

The University of Alberta has established several subsidiary companies to facilitate the transfer of research technology into commercially viable technology. The University also has a number of licence

agreements whereby private companies are authorized to use technology or information developed by University researchers upon payment of a user fee. In total, there are more than 100 arrangements to promote technology transfer, including subsidiary companies and licence agreements.

The procedures for entering into such arrangements are deficient. Before entering into agreements, there is no standard checklist of procedures to be followed to reduce the University's exposure to financial and legal risks.

In a management letter to the University's President at the conclusion of the audit I made the following recommendation:

Recommendation No. 7

> **It is recommended that the University of Alberta reduce its exposure to financial and legal risk by employing control procedures, including checklists designed to minimize risk, prior to entering into initial and ongoing agreements to promote technology transfer.**

Once arrangements to promote technology transfer have been entered into, there is no clear line of responsibility for monitoring the activities of the entities to ensure that the terms of the agreements with the University are being met. In certain cases, it is unclear whether the Office of Research Services, the Comptroller's office, or a specific department is responsible for following up compliance with the agreements. In addition, there is no formal system to cover certain aspects of financial reporting, audit requirements, or the monitoring of insurance, patents, royalties, and contributions-in-kind.

The University would benefit by monitoring critical events such as testing of products and commercial production of goods. Policies should be developed which stipulate the manner in which shares, royalties, and contributions-in-kind will be accounted for and procedures should also be in place to monitor specific transactions in this area. Guidelines should stipulate the reporting responsibilities of the entities to the University.

In a management letter to the University's President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 8

> **It is recommended that the University of Alberta formally designate responsibility for monitoring and reporting on compliance with agreements to promote technology transfer.**

Observations from Financial Audit Work

Operating deficit — The University's financial statements disclose an operating fund deficit of $2.4 million at March 31, 1988. This deficit was created by a management decision to appropriate $3.5 million from the operating fund to Funds Appropriated for Specific Purposes. Specific purposes funds are reserves created at the discretion of Management.

In my view, it is not reasonable to create a deficit by appropriating more funds than are actually available in the operating fund.

In a management letter to the Vice-President, Administration at the conclusion of the audit, I made the following recommendation:

Recommendation No. 9

> **It is recommended that in future the University of Alberta not create or increase an operating deficit by a management appropriation to reserves.**

Fixed assets — The accuracy of the University's general ledger fixed asset accounts and equipment inventory records is still a matter of concern.

My last two annual reports have discussed the efforts of the Capital Equipment Advisory Committee to improve the accuracy of the accounting and equipment records.

In a management letter to the Vice President, Administration at the conclusion of the annual audit, it was recommended that work on improving the accuracy of the accounting and equipment records continue and that in particular the recommendations in the 1987 Internal Audit report be considered in detail.

Approval of the financial statements — The University's financial statements were not released until six months after its year end.

In a management letter to the Vice President, Administration at the conclusion of the audit, it was recommended that procedures for approval and release of the annual financial statements be improved.

Construction contract costs and liabilities — The financial statements had to be adjusted to correctly reflect approximately $1.7 million of costs and liabilities initially omitted.

In a management letter to the Vice President, Administration at the conclusion of the audit, it was recommended that normal year-end review procedures be applied to significant contracts in progress to make sure that costs and liabilities are recorded in the correct fiscal year.

Monitoring payroll expenditures — The salary expenditure report which is intended to be the means of monitoring payroll expenditures at the departmental level may not be meeting the users' needs. Budget information included in the report is sometimes inaccurate and distribution of the report is not timely.

Failure to supply accurate and timely information to the individuals responsible for monitoring payroll expenditures may result in a loss of control over this large component of the University's expenditures.

In a management letter to the Vice President, Administration at the conclusion of the audit, it was recommended that the University Payroll Department, the Budget Division and users review the report to determine whether it provides the required information.

2.4.8 **Alberta Laser Institute** — year ended March 31, 1988
Alberta Telecommunications Research Centre — year ended March 31, 1988
Centre for Frontier Engineering Research Institute — year ended March 31, 1988
The Alberta Microelectronic Centre — year ended March 31, 1988

These four entities are wholly-owned not-for-profit subsidiary companies of The University of Alberta.

The annual financial audits of these companies were extended to include examinations of the systems used by each company to prepare and report its financial accountability information.

2.4.9 **Chembiomed Ltd.** — year ended March 31, 1988

Observations from Financial Audit Work

The reasonableness and timeliness of the information generated by the production costing system can be improved.

The present costing system allocates direct production costs and overheads based upon actual units produced for each product. Limited production, with fluctuating units produced from batch to batch, can result in abnormal product costs. Also, the costing of chemical production is not done regularly.

In a management letter to the President of the Company at the conclusion of the audit, it was recommended that the production costing system be reviewed to improve the reasonableness and timeliness of costing information.

2.4.10 **The Banff Centre for Continuing Education** — year ended March 31, 1988

The annual financial audit was extended to include an examination of the systems and procedures used by the Centre to acquire goods and services.

Observations from Extended Audit Work

On balance, the purchasing function at the Banff Centre is performing satisfactorily. However, the examination did identify opportunities where the Banff Centre, through organizational and procedural changes, can further enhance the effectiveness and efficiency of the purchasing function.

The purchasing operations were focused on financial and accounting control at the expense of service to the user departments. This emphasis over time has resulted in excess paper work, duplicated and redundant tasks and a perception by many user departments that the purchasing department is not meeting user expectations.

In a management letter to the Centre's President, which was issued at the conclusion of the examination, several recommendations were included to address these matters. The Centre's Executive Vice- President concurred with the recommendations, and indicated that Management intends to proceed with implementation of the recommendations as expeditiously as possible.

2.4.11 Financial audits of the following for the year ended March 31, 1988 were also completed:

The Arctic Institute of North America
The University of Lethbridge

2.4.12 PUBLIC COLLEGES

The Provincially-owned public colleges operate under the authority of the Colleges Act. Although these colleges are Provincial agencies, their financial statements are not published in the public accounts, nor are they included in the Province's consolidated financial statements. The Auditor General has commented on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the Colleges Act, tables the audited financial statements of the Colleges each year in the Legislative Assembly.

2.4.13 **Fairview College** — year ended June 30, 1988

Observations from Financial Audit Work

At June 30, 1988, the college owned livestock with a market value of $218,935. This asset was recorded in the College's financial statements at a nominal value of $1.

The College's practice of recording its livestock inventory at a nominal amount is disclosed in the notes to the financial statements. The practice is not, however, in accordance with generally accepted accounting principles. Recording inventory at nominal amounts has the effect of understating assets and distorting the results of the College's operations.

The proper accounting treatment is to record livestock inventory at the lower of cost and net realizable value. Notes to financial statements should not be used as a substitute for proper accounting treatment.

Accordingly, in a management letter to the College's President at the conclusion of the audit, it was recommended that the College change its accounting policy and record livestock at the lower of cost and net realizable value.

2.4.14 **Grant MacEwan Community College** — year ended June 30, 1988

The annual financial audit was extended to include an examination of the systems and procedures used by the College to safeguard its micro-computers and to prevent unauthorized use of and access to these assets and their related files.

Observations from Financial Audit Work

Deferred revenue — In my 1986-87 annual report (section 2.4.17) I reported that the College had not determined the final disposition of unexpended conditional grant funds totalling approximately $200,000. Unexpended funds relating to conditional programs that are complete or inactive cannot be taken into revenue, or otherwise disposed of, without the concurrence of the Department of Advanced Education. I recommended that the College in conjunction with the Department of Advanced Education determine the final disposition of unexpended conditional grant funds included in deferred revenue that relate to programs that are complete or inactive.

During 1987-88 the College communicated with the Department regarding the disposition of the unexpended conditional funds. The Department of Advanced Education indicated that this matter is being reviewed.

As the matter of unexpended conditional grant funds is being considered by the College and the Department, my previous recommendation is not repeated. However, the audit office will continue to monitor the situation until such time as the final disposition of the unexpended conditional grant funds is determined.

Financial statements — College staff need to be more involved in the preparation of annual financial statements.

For at least the last two fiscal years, the financial statements of the College have been prepared by either audit staff or an external accounting firm. This is not compatible with the audit function and is expensive. In addition, completion of the annual financial audit was delayed because of inadequate analyses of accounts and documentation for adjustments.

College financial staff should prepare periodic financial statements. By providing timely information on the composition of account balances, trends and budget variances, existing management control procedures could be strengthened. Also, the time and cost of preparing annual financial statements could be reduced.

In a management letter to the President at the conclusion of the audit, it was recommended that college staff prepare annual financial statements and supporting schedules.

2.4.15 **Lakeland College** — year ended June 30, 1988

The annual financial audit was extended to include:

— An examination of the system used by the College to monitor and control its payroll expenditures.

— An examination of the design and development phases of the College's new computer-based capital equipment system.

— An examination of the College's standing purchase order system for acquiring goods and services.

Observations from Extended Audit Work

There is scope for improving controls over the system development process, computer recovery plans, and the acquisition of goods and services with standing purchase orders. In addition, payroll and personnel procedures should be documented.

The College has identified a number of payroll and personnel policies and procedures which need to be documented. Clearly documented procedures can be more consistently applied and provide continuity in the event of staff illness, vacation or turnover.

The system development process needs to be formalized. Systems design alternatives documentation, conversion procedures including parallel processing, audit and management trails and post implementation procedures need to be considered in the development process. Guidelines formalizing these controls should be approved by the Executive Committee of the College.

The College has no documented computer disaster recovery plan. Such a plan should provide procedures to follow which will ensure continuity of operations and should state what alternative computer facilities are available.

In a management letter to the President of the College at the conclusion of the audit, it was recommended that the College document payroll and personnel policies and procedures. It was also recommended that the College formalize computer systems development procedures and prepare a disaster recovery plan in the event of loss of its computer files or installation.

Recommendations were made to improve control over the standing purchase order method of acquiring goods and services. I am pleased to report that many of these recommendations were accepted by the College and implemented before the conclusion of the annual financial audit.

2.4.16 **Olds College** — year ended June 30, 1988

Observations from Financial Audit Work

The annual financial audit was not complete as of the date of this report. Had the College been better prepared, the audit could have been completed earlier and at less cost.

For at least two years, the College has not dealt appropriately with standard year-end procedures. Draft financial statements together with all necessary documentary support have not been prepared on schedule.

In a management letter to the President, it was recommended that the College establish and document procedures to facilitate the timely completion of future audits.

2.4.17 Financial audits of the following were also completed for the year ended June 30, 1988:

Alberta College of Art
Grande Prairie Regional College
Keyano College
Lethbridge Community College
Medicine Hat College
Mount Royal College
Red Deer College

In addition, financial audits of **Medicine Hat College** and **Olds College** for the year ended June 30, 1987 were completed.

2.4.18 TECHNICAL INSTITUTES

The Northern Alberta Institute of Technology, the Southern Alberta Institute of Technology and Westerra Institute of Technology all operate under the Technical Institutes Act. Although they are Provincial agencies, their financial statements are not published in the public accounts nor are they included in the Province's consolidated financial statements. The Auditor General has commented on this in section 2.2.1 of this report. The Minister of Advanced Education, who administers the Technical Institutes Act, tables the audited financial statements of the institutes each year in the Legislative Assembly.

2.4.19 **Southern Alberta Institute of Technology (SAIT)** — year ended June 30, 1988

Observations from Financial Audit Work

Deferred revenue — In my 1986-87 annual report (section 2.4.27) I reported that SAIT had not decided how to account for a significant amount of unexpended conditional grant funding received from the Department of Advanced Education. Funding received but not spent, either because it is in excess of requirements or because the programs are inactive, cannot be treated as revenue by SAIT without the Department's concurrence. I recommended that the Institute in conjunction with the Department of Advanced Education determine the final disposition of the unexpended conditional grant funds that it holds in respect of programs that are complete or inactive.

During 1987-88 the Institute communicated with the Department regarding the disposition of the unexpended conditional grant funds, which at June 30, 1987 amounted to approximately $515,000. The Department of Advanced Education indicated that this matter is being reviewed.

As the matter of unexpended conditional grant funds is being considered by the Institute and the Department, my previous recommendation is not repeated. However, the audit office will continue to monitor the situation until such time as the final disposition of the unexpended conditional grant funds is determined.

Inventories — SAIT needs to further improve its procedures for counting, valuing and controlling inventories of materials and supplies.

SAIT maintains inventories of materials and supplies in excess of $3 million. These inventories are held in many locations and are administered by a small number of staff in each location.

Consequently, it is difficult to achieve effective control through segregation of duties and restricted access. It is, therefore, important that year end inventory counts and valuation be complete, accurate and subject to supervision and review by Management.

For several years I have reported on deficiencies in the conduct of year end inventory counts at SAIT. Although some improvement has been observed, there are still many deficiencies in the procedures used and the extent of Management supervision.

In the management letter to the President at the conclusion of the audit, I again recommended that inventory count procedures, including increased supervision and Management participation, be reviewed. I also recommended that effective procedures be implemented to monitor inventory levels and to discourage any unnecessary inventory purchases.

2.4.20 **Westerra Institute of Technology** — year ended June 30, 1988

Observations from Financial Audit Work

In my 1986-87 annual report (section 2.4.28) I reported that the Institute needed to reallocate the duties of certain of its staff, or establish alternative controls to minimize the risk of errors and irregularities. I acknowledged that the Institute has a small number of administrative staff and the opportunity to segregate incompatible duties is limited. I recommended that the Institute review the allocation of duties to its administrative staff and reallocate them or provide additional management review to achieve sound internal control.

I am pleased to report that the 1987-88 audit revealed that internal control has been strengthened by reallocating incompatible functions and increasing management review and supervision.

2.4.21 A financial audit of the **Northern Alberta Institute of Technology (NAIT)** for the year ended June 30, 1988 was also completed.

2.5 AGRICULTURE

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.5.1 **Department of Agriculture** — year ended March 31, 1988

Observation from Financial Audit Work

Further improvements are needed in the way the Department verifies that grants paid under the Alberta Crow Benefit Offset Program are reasonable.

During 1987-88, Alberta livestock producers received grants totalling more than $70 million under the Program to offset higher domestic feed grain prices caused by Crow-benefit-subsidized freight charges on exported grain. Although the Department exercises pre-disbursement controls, a post-disbursement program of field audits is the main contributor to providing overall assurance that grants paid match entitlements.

In my 1985-86 annual report, I stated that the Department was not obtaining adequate assurance that grants paid under the Program were based on actual consumption of grain by eligible livestock. In my 1986-87 report (section 2.5.1), I acknowledged that improvements had been made but recommended that the procedures used to obtain assurance be further improved. It was suggested that particular attention be paid to ensuring that the Department's inspectors comply with established field auditing procedures.

I am pleased to report that during 1987-88, the Department strengthened its field auditing procedures. While there is still scope for improving compliance with these procedures, the quality of the audits and audit findings are noticeably better.

Nevertheless, there are still procedural weaknesses. For example, procedures used to audit certificate option livestock producers do not include performing periodic combined livestock and grain counts and reconciling increases and decreases since the previous registered inventories. This useful verification procedure would be easier to perform if producers were required to register their livestock and grain inventories at frequent intervals. Field audits of certificate option producers should also include checking that maximum limits of grain volumes considered capable of being consumed by livestock are not being exceeded.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department broaden the scope of its established field audit procedures relating to certificate option livestock producers. To improve the usefulness of field auditing procedures, it was also recommended that audit completion checklists be instituted covering all phases of the audits.

2.5.2 **Alberta Agricultural Development Corporation** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the controls exercised over the development, data conversion and implementation of the new Management and Financial Information System (MAFIS) which is used to administer the Corporation's loans.

— An audit of the separate financial statements of Lambco, a division of Alberta Agricultural Development Corporation for the year ended March 31, 1988.

Observation from Financial Audit Work

On April 1, 1987 the Alberta Agricultural Development Corporation implemented MAFIS. Many loan accounts contained unexplained differences at the conversion date between MAFIS and the system it replaced. In addition, MAFIS did not reconcile to the Corporation's general ledger. These differences have since been resolved by the Corporation and the new system had no detrimental effect on the preparation and accuracy of the financial statements for the year ended March 31, 1988.

Several weaknesses in controls over input and processing of transactions in MAFIS remained at the end of the fiscal year. In a management letter to the Acting Chairman of the Board of Directors, it was recommended that Management improve the edits in MAFIS and consider the development and implementation of exception reports to help identify problems in the data generated by the system.

2.5.3 **Alberta Agricultural Research Institute** — period ended March 31, 1988

Observation from Financial Audit Work

The Institute advanced monies to its Chairman for purposes that are not within the authority of the Alberta Agricultural Research Institute Act.

The Institute was established during 1987-88 to provide support for agricultural research. The Institute's Chairman was also head of a task force committee with responsibilities relating to a program of the Department of Agriculture.

In September 1987, $7,075 was paid to the Chairman from Institute funds to cover expenses relating to his responsibilities as head of the Department's task force committee. The payment was made

to provide immediate funds to cover fees owed by the Department. It is understood that payment was made from Institute funds to avoid a delay in obtaining payment from the Department.

In December 1987, the Institute was reimbursed by a cheque from the Department of Agriculture.

It is acknowledged that the fees, together with the related employment expenses, were eventually accounted for correctly. However, advancing funds, even temporarily, for purposes unrelated to the Institute's purposes is not in compliance with the Act.

In a management letter to the Deputy Minister of Agriculture at the conclusion of the audit, it was recommended that, in future, no disbursements be made by the Institute for purposes other than those authorized by the Alberta Agricultural Research Institute Act.

2.5.4 **Alberta Hail and Crop Insurance Corporation** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An audit of the Province's 1987-88 cost-sharing claim under the Canada-Alberta Crop Insurance Agreement.

— An audit of the Province's 1987-88 cost-sharing claim under the Canada-Alberta Waterfowl Crop Damage Compensation Program.

Observation from Financial Audit Work

In my 1986-87 annual report (section 2.5.3), I recommended that the Corporation consider seeking amendments to the Hail and Crop Insurance Act to allow it to receive advances from the Province's General Revenue Fund in excess of the limits then imposed by the Act. The recommendation stemmed from a situation in 1985-86 when the Corporation received advances totalling $161.6 million to cover indemnity claims, without proper legislative authority.

In August 1988, the Hail and Crop Insurance Amendment Act was proclaimed. This Act repealed certain sections of the Hail and Crop Insurance Act and increased the amount that can be advanced from the General Revenue Fund by the Provincial Treasurer at the request of the Minister of Agriculture. It also provides authority for further advances with the authorization of the Lieutenant Governor in Council.

This action resolves my previously reported concern.

2.5.5 Financial audits of the following were also completed:

Alberta Agricultural Research Trust— period ended July 14, 1987
Alberta Dairy Control Board — year ended March 31, 1988
Alberta Terminals Ltd. — year ended July 31, 1987
Crop Reinsurance Fund of Alberta — year ended March 31, 1988
Irrigation Land Manager — year ended March 31, 1988
Livestock Identification and Brand Inspection Fund — year ended March 31, 1988
Livestock Patrons' Assurance Fund — year ended March 31, 1988
Stray Animals Act Fund — year ended March 31, 1988
The Horned Cattle Purchases Act Trust Account — year ended March 31, 1988
Wheat Board Money Trust Account — year ended March 31, 1988

2.6 ATTORNEY GENERAL

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report.

2.6.1 **Department of the Attorney General** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the systems and procedures used to control and account for revenues at the Edmonton and Calgary Land Titles Offices.

— An examination of the financial systems at the Department's Personal Property Registry Branch.

— An examination of the procedures used by the Public Utilities Board to monitor whether rates previously approved by the Board continue to be reasonable.

— An examination of the systems used by the Department's Gaming Control Branch to monitor and control gaming in Alberta.

— An examination of the computer system implemented by the Department to assist in controlling trust funds and revenue from civil cases in Alberta courts.

— Examinations of the financial systems in place at the Sherwood Park Provincial Court and the Court of Queen's Bench - Edmonton.

— An examination of the revenue and expenditure systems at the Edmonton Medical Examiner's Office.

— An examination of the Department's controls over the completeness and accuracy of data input to the Province's central (DFS/CFS) financial accounting and reporting system.

2.6.2 Financial audits of the following were also completed:

Chattel Security Registries Assurance Fund — year ended March 31, 1988
Public Trustee - Estates and Beneficiaries Trust Accounts — period ended March 31, 1988
Registrar's Assurance Fund — year ended March 31, 1988
Special Reserve Fund (Public Trustee) — period ended March 31, 1988
The Alberta General Insurance Company — year ended December 31, 1987

2.7 CAREER DEVELOPMENT AND EMPLOYMENT

Of the matters reported to management, the observation below was selected for inclusion in this report.

2.7.1 **Department of Career Development and Employment** — year ended March 31, 1988

The annual financial audit was extended to include an examination of the system used by the Department to control and process grant expenditures.

Observation from Financial Audit Work

In my 1985-86 and 1986-87 annual reports, I commented on significant inaccuracies in the Department's accounts payable at fiscal year-ends, particularly those related to training and employment grant contracts. I recommended that procedures be established to improve the accuracy of the Department's year-end accounting.

I am pleased to report that the Department's accounting systems have improved and that accounts payable at March 31, 1988 were reported accurately in the Province's public accounts.

2.8 COMMUNITY AND OCCUPATIONAL HEALTH

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.8.1 **Department of Community and Occupational Health** — year ended March 31, 1988 (This Department ceased to exist in September 1988 when its responsibilities were transferred to the Department of Health)

The annual financial audit was extended to include an examination of the systems used by the Department to disburse funding to health units, and to monitor how the funding is used.

Observations from Extended Audit Work

Recovering health unit surpluses — The Department needs better procedures for ensuring that the financial information it receives from health units is comprehensive and reliable. It also needs to recover overpaid accommodation and capital grants more promptly.

The Department funds the accommodation and capital requirements of health units by means of grants. To the extent that grants are not used, they are refundable to the Department. Health units provide the Department with annual financial statements which the Department uses to monitor the adequacy of the funding it provides.

During 1987-88, the Department discovered that one health unit had prepared two sets of financial statements. One set accounted for the financial affairs of the health unit's Board, and included the land and buildings, and rent received from the unit for their use. The other set accounted for the remainder of the health unit's activities, and included a charge for the rent paid to the Board.

The health unit's financial statements, which were submitted to the Department, do not show an accumulated surplus. Hence, there is no indication that surplus grants may be refundable. The Board's financial statements, however, show an accumulated surplus of approximately $650,000.

Financial statements that account for only part of a health unit's activities can be misleading, particularly if the reader is unaware that they do not cover all of the unit's activities. The true financial position of the health unit, and the information needed to determine whether it has received an appropriate level of funding, can be viewed only by combining the two sets of statements.

The Department is continuing to investigate this situation. It has obtained a legal opinion which casts doubt on the probity of the transactions between the health unit and its Board. It also raises concerns about the title to the property for which the rent is being charged.

The above situation raises serious concerns about the procedures used by the Department to monitor the adequacy of the funding it provides. It shows that financial statements alone may not be sufficient for such monitoring, unless supplemented by additional information on, for example, related party transactions. Furthermore, the Department should move promptly to recover overfunding. An audit sample revealed two other health units which had not refunded unused accommodation and capital grants, even though they are required to do so by the Regulations.

In a management letter to the Deputy Minister of Health at the conclusion of the audit, I made the following recommendation:

Recommendation No. 10

It is recommended that the Department of Health obtain adequate information from health units to enable it to identify and recover any accommodation and capital grants that are refundable to the Department.

Health unit program costs — The Department does not obtain sufficient information on the activities and programs of health units to enable it to analyze and compare costs and programs between units and between years.

Using information available to the Department, the Audit Office identified a number of instances where escalating costs and differences between health unit costs appeared abnormal. Some of the instances were significant enough to raise concerns about the equity of the funding provided. For example, the salary costs for a program at two health units increased from one year to the next by $0.8 million or 36% and $1.1 million or 47%, while the patient count increased by only 2.3% and 1.6% respectively. Furthermore, the annual nursing cost per patient at one health unit was $72, compared with $43 at an otherwise comparable unit.

Department staff had not identified these differences and could not explain them.

In a management letter to the Deputy Minister of Health at the conclusion of the audit, I made the following recommendation:

Recommendation No. 11

It is recommended that the Department of Health obtain sufficient information on the activities and programs of health units to enable it to analyze and compare costs to determine if the funding provided is appropriate.

Non-compliance with regulations — The Public Health Act and its Regulations prescribe the contents of health units' budgets and financial statements, plus their filing deadlines and surplus retention rules. However, several health units are not complying with these requirements.

In a management letter to the Deputy Minister of Health at the conclusion of the audit, it was recommended that the Department improve its procedures for monitoring compliance by health units with the Act and its regulations.

Observations from Financial Audit Work

Federal cost-sharing claims — In my 1986-87 annual report (section 2.8.1), I recommended that the Department of Community and Occupational Health and the Department of Social Services agree on which department is responsible for submitting claims for Department of Community and Occupational Health expenditures eligible for cost-sharing under the Canada Assistance Plan Agreement, and submit delayed claims as soon as possible.

As a result of disagreement between the two departments as to which was responsible for submitting claims, unsubmitted claims of approximately $6 million had accumulated by September 30, 1987.

I am pleased to report that claims for estimated amounts have since been submitted to the Government of Canada, which resolves my previously reported concern.

Alberta Aids to Daily Living/Extended Health Benefits — In my 1986-87 annual report I also reported that the systems used to administer these two programs were generally satisfactory. I recommended, however, that to ensure compliance with the prevailing regulations, the Department maintain the accurate and up-to-date information necessary to determine whether beneficiaries under the programs continue to hold valid registration certificates under the Health Insurance Premiums Act.

I am pleased to report that the Department has satisfactorily tested procedures for validating program clients' current status with Alberta Health Care Insurance Plan files. This resolves my previously reported concern.

2.8.2 **The Workers' Compensation Board** — year ended December 31, 1987

Observation from Financial Audit Work

Compensation overpayments — Inaccuracies in calculating compensation payments to injured workers are resulting in substantial overpayments.

The Board compensates workers for earnings lost while they are injured. Compensation paid during 1987 amounted to almost $118 million. Audit testing revealed that approximately $3.3 million of this amount may have been overpaid.

The overpayments were caused mainly by clerical errors in calculating compensation entitlements. As well as containing mathematical errors, some calculations were made using incorrect earnings information and/or incorrect return-to-work dates. A contributing factor to these errors may have been that responsibility for determining the earnings on which compensation payments are calculated was transferred from one section to another, without instituting additional controls to compensate for the inexperience of the staff involved.

In a management letter to the Board's Chairman at the conclusion of the Audit, I made the following recommendation:

Recommendation No. 12

It is recommended that The Workers' Compensation Board strengthen its procedures for calculating compensation payments to injured workers and ensure that claims file documentation is complete and adequate. It should also determine the full extent of compensation overpayments that have occurred and investigate the potential for recovering such overpayments.

2.8.3 A financial audit of the **Alberta Alcohol and Drug Abuse Commission** was also completed for the year ended March 31, 1988

2.9 CONSUMER AND CORPORATE AFFAIRS

Of the matters reported to management at the conclusion of the Department's audit, none warrant inclusion in this report.

2.9.1 **Department of Consumer and Corporate Affairs** — year ended March 31, 1988

The annual financial audit was extended to include an examination of the accounting and management controls used by the Department to collect and record revenue under the Business Corporations Act.

2.10 CULTURE AND MULTICULTURALISM

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.10.1 **Department of Culture and Multiculturalism** — year ended March 31, 1988

The annual financial audit was extended to include an examination of the systems and procedures used by the Department to control and safeguard fixed assets, and to coordinate the acquisition and use of computer resources, at the Provincial Archives, the Tyrrell Museum of Palaeontology and the Ukrainian Village.

Observations from Extended Audit Work

Fixed asset control systems — The systems used to control and safeguard fixed assets located at the Provincial Archives, the Tyrrell Museum of Palaeontology and the Ukrainian Village are deficient.

The physical existence of fixed assets at these three locations had not been verified for several years. When attempts were made to do so during 1987-88, the project was not properly supervised and the assets located and verified were not reconciled promptly to the Department's fixed assets control records. In addition, the fixed assets control records are deficient in that some of the cost information does not conform to the section of the Treasury Department's Accounting and Financial Control Manual which sets policy and guidelines for controlling, recording and disposing of fixed assets.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department review the procedures used to control fixed assets at the Provincial Archives, the Tyrrell Museum of Palaeontology and the Ukrainian Village and, where necessary, modify them to comply with the fixed asset control and recording requirements contained in the Treasury Department's Accounting and Financial Control Manual. The Department should also ensure that the fixed asset records contain sufficient information to facilitate management control.

Security over historical records — Historical records in the custody of the Provincial Archives are not adequately protected against loss or damage.

The Archives is responsible for the custody and care of considerable quantities of public records, many of which are considered to be of significant historical and monetary value. When the Audit Office examined these records, less than ten per cent had been sorted, evaluated and recorded in an itemized inventory. These records are often used by researchers and, therefore, it is important that they are arranged and catalogued in a manner that facilitates their use, and enables Archives' staff to determine whether borrowed records are subsequently returned.

Furthermore, many of the records are stored in warehouses which do not provide the controlled environment needed to ensure their continued preservation. Some of the rolled maps and film reels have no protective coverings and some documents are stored in damaged boxes.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the storage conditions and the physical control over documents and other records entrusted to the Provincial Archives.

2.10.2 **Glenbow-Alberta Institute** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the system and procedures used by the Institute to safeguard and control museum collection items.

— Audits of separate financial statements of the Glenbow Foundation and the Luxton Museum.

Observation from Financial Audit Work

My report on the financial statements for 1987-88 contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Institute receives donation revenue which is not susceptible of audit verification.

2.10.3 Financial audits of the following were also completed:

Culture and Multiculturalism Revolving Fund — year ended March 31, 1988
The Alberta Art Foundation — year ended March 31, 1988
The Alberta Cultural Heritage Foundation — year ended March 31, 1988
The Alberta Foundation for the Literary Arts — year ended March 31, 1988
The Alberta Foundation for the Performing Arts — year ended March 31, 1988
The Alberta Historical Resources Foundation — year ended December 31, 1987
The Government House Foundation — year ended March 31, 1988

2.11 ECONOMIC DEVELOPMENT AND TRADE

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.11.1 **Department of Economic Development and Trade** — year ended March 31, 1988

The annual financial audit was extended to include examinations of the accounting and management controls used by the Department to administer the Export Loan Guarantee Program, the Farm Implement Dealers Guarantee Program and the Small Business Equity Corporations Program.

2.11.2 **Alberta Intermodal Services Ltd.** — year ended December 31, 1987

The annual financial audit was extended to include an examination of the controls exercised over the development and implementation of the computer-based operating and accounting systems introduced by the Corporation during the year.

Observation from Extended Audit Work

New computer system — Alberta Intermodal Services Ltd., (AIS) failed to exercise adequate management control when acquiring, modifying and implementing new computer software.

In early 1986, AIS acquired a computer software package from an American group of companies. The software was acquired in the belief that it was being used by another company in the container transportation business, and that it was designed to operate on IBM System 38 computers.

The American group agreed to modify the software to accommodate AIS's particular requirements, and to enable it to operate on the Company's System 36 computer. The modifications, however, proved more extensive than had been anticipated, and AIS became dissatisfied with the American group's performance in this regard. To remedy the situation, AIS arranged for a Calgary software company to complete the modifications as subcontractor of the American group. Later, AIS severed its relationship with the American group and contracted directly with the Calgary company for the completion of the modifications.

The estimated cost of acquiring and modifying the software package increased from $250,000 in April 1986 to in excess of $500,000 in February 1988.

The control exercised by AIS management during acquisition and modification of the software was inadequate in several respects. For example, there was no feasibility study to determine the Company's information needs, to explore alternatives, or to estimate the total costs involved. The modification and implementation phases were not pre-planned, and the steering committee charged with overseeing the project did not assume a leadership or controlling role. No internal or external system specifications were prepared and the scope and timing of testing, parallel running and user acceptance were not documented.

It is understood that this situation stemmed initially from the belief that AIS was acquiring a proven software package that required only minimal modifications. The acquisition agreements provided for many standard control procedures, but most were not followed. AIS delegated responsibility for the modification and implementation phases to an external consultant. However, there is little documentary evidence of accountability by the American group to the consultant, or by the consultant to AIS, to ensure that AIS was acquiring a product commensurate with the costs incurred.

In a management letter to the General Manager and Chief Executive Officer of AIS at the conclusion of the audit, I made the following recommendation:

Recommendation No. 13

It is recommended that, in future, Alberta Intermodal Services Ltd., exercise better management control when developing and implementing new computer systems.

2.11.3 **Alberta Opportunity Company** — year ended March 31, 1988

Observation from Financial Audit Work

I was able to report without reservation that the Company's financial statements for the year ended March 31, 1988 were prepared in accordance with generally accepted accounting principles. However, there is scope for improving the usefulness of the financial information they contain.

The financial statements would be more informative if they included, as they have in years past, detailed operating expense information. The 1987-88 statement of revenue and expenses includes only summarized figures against the captions 'other operating expenses' and 'venture investment division expenses.'

Breaking down these summarized figures into such categories as salaries and benefits, travel, occupancy costs and professional fees would give users of the statements a clearer view of the Company's financial operations. In addition, venture investment division expenses would be better reported in a manner that allows users to compare the Company's traditional operations with the operations of this new division.

In a management letter to the Company's President at the conclusion of the audit, it was recommended that the Company include more detailed operating expense information in its annual financial statements.

The Company's Board has indicated that it prefers to report summarized expenditure figures in the audited financial statements because the statements are published in the Company's annual report, which is used for public relations purposes. The Audit Office believes, however, that undue summarization of expenditures impairs the usefulness of the statements as accountability reports to the Legislative Assembly.

2.11.4 Financial audits of the **Alberta Motion Picture Development Corporation** and the **Motion Picture Development Fund** were also completed for the year ended March 31, 1988.

2.12 EDUCATION

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report.

2.12.1 **Department of Education** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the operations of the Department's personnel performance appraisal system.

— An examination of the system used to administer and control the Department's Special Education Program. This included examining the Department's information needs in the special education area, the timeliness with which grants are determined and criteria used by the Department's regional offices to monitor special education across the Province.

2.12.2 Financial audits of the following were also completed:

Education Revolving Fund — year ended March 31, 1988
Northland School Division No. 61 — year ended August 31, 1987
School Foundation Program Fund — year ended March 31, 1988
Teachers' Retirement Fund — year ended August 31, 1987

2.13 ENERGY

Of the matters reported to management, the following observations and recommendations were selected for inclusion in this report.

2.13.1 **Department of Energy** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the system used by the Department to monitor the accuracy of the oil and gas production information used to calculate and verify oil and gas royalties, incentives and mineral taxes.

— An examination of the procedures used to restrict and control the use of database manipulation language on the Department's computer database.

— An examination of the procedures used to monitor and control changes made to the Department's computer programs.

Observations from Financial Audit Work

Injection schemes — The Department needs a system for monitoring the royalty status of gas that is injected into, and later recovered from, the Province's petroleum and natural gas wells. Without such a system, it cannot be sure that it is collecting all the royalty to which the Province is entitled.

Considerable amounts of gas are injected into wells to enhance production and maintain proper production practices. Some of this gas has borne royalty (at various rates) and some of it has not. When calculating royalty payable on gas subsequently produced by these wells, the amount and royalty status of gas previously injected is taken into account. However, without a system that records and monitors the gas previously injected, the Department is unable to assess how accurately gas production is classified on the monthly reports received by the Department with royalty payments.

I expressed the above concern in my 1986-87 annual report (section 2.13.1). I recommended that the Department accumulate information on the amounts and royalty status of gas injected into wells, and use it to determine whether the Province is receiving all the royalty to which it is entitled.

During 1987-88, the Department developed a work plan to address this concern. However, more planning and development work will be needed to design and implement a suitable system. Pending completion of this work, I again made the following recommendation in a management letter to the Deputy Minister at the conclusion of the audit:

Recommendation No. 14

It is recommended that the Department of Energy develop a system for accumulating information on gas injected into petroleum and natural gas wells, and use such information to determine whether the Province is receiving the royalty to which it is entitled.

Deregulation — The Department needs better systems and procedures for obtaining assurance that the information used to calculate the Province's natural gas royalties is accurate.

In my 1986-87 annual report, I commented on difficulties experienced by the Department following deregulation of the gas industry in November 1986. Before deregulation, the Department could verify the selling prices used in royalty calculations by reference to regulated prices. After deregulation, with selling prices fluctuating in response to open market forces, it could only verify selling prices by reference to the producers' detailed sales records.

In January 1988, further changes were made to the natural gas royalty regime. One change involved the introduction of an "Alberta average market price" (AMP) for gas, which is calculated and published each month by the Department. If the actual contract value for a sale of gas is less than 80% of AMP then, for Crown royalty valuation purposes, the unit value must be adjusted to 80% of the AMP for that month. There are, however, a limited number of exceptions to this rule.

Accordingly, the Department needs to obtain assurance that the selling prices reported by producers are accurate. As a minimum, it should be able to identify instances where selling prices appear to be reported inaccurately. The Department's Mineral Revenue System is capable of checking that the net unit value on monthly royalty returns is at least 80% of AMP. However, it is unable to distinguish between those cases that are subject to the 80% of AMP rule, and those that are exempt. This has the effect of delaying unduly the investigation of inappropriate selling prices.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 15

It is recommended that the Department of Energy improve its gas royalty verification procedures so that instances where gas selling prices are less than eighty per cent of the Alberta average market price are promptly identified and investigated. In addition, the Department should continue to develop procedures for verifying promptly the reported selling prices on which royalties are calculated.

Oil and gas production data — The Department is still not obtaining adequate assurance that the oil and gas production data used to calculate oil and gas royalties is reliable. In my 1985-86 and 1986-87 annual reports, I recommended that this problem be addressed.

The Department is responsible for collecting oil and gas royalties and mineral tax revenues payable to the Province. In doing so, it uses production data obtained from the Energy Resources Conservation Board (ERCB) and the oil and gas industry. The reliability of the data obtained from ERCB is vital since it is a major component in the calculation of oil royalties and mineral taxes, and in the verification of the accuracy of gas royalties collected.

ERCB verifies the reliability of its production data by inspecting the records of a sample of production facilities. The inspections, however, were originally designed to satisfy ERCB that the data was accurate enough for its own purposes. While ERCB's verification procedures have since been extended, they still do not enable a conclusion to be drawn as to the reliability of the data for royalty and mineral tax calculation purposes.

In my 1986-87 annual report I indicated that, in my opinion, the Department was not justified in assuming that the production information obtained from ERCB was reliable enough for royalty and mineral tax calculation purposes.

The 1987-88 audit revealed that although progress has been made in addressing this problem, much remains to be done. No statistically supportable conclusion can be drawn that the data obtained from ERCB is reliable enough for royalty and mineral tax calculation purposes.

In April 1987, a task force formed to investigate the above difficulties issued a report containing recommendations designed to improve the reliability of the information supplied to the Department by ERCB. It also proposed long and short term plans to enable the Department and ERCB to evaluate the accuracy of oil production data. The plans called for additional staff and other resources for ERCB during the three years beginning in April 1988.

On the recommendation of the task force, an Energy Information Management and Exchange Committee was formed to implement the task force's plans and to coordinate modifications to the information involved. In addition, ERCB has involved the Audit Office in reviewing alternative sampling plans and error definition techniques.

Pending further progress with this matter, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 16

It is recommended that the Department of Energy obtain better assurance that the production data supplied to it by the Energy Resources Conservation Board is accurate enough to verify royalty calculations. To this end, the Department and the Board should agree on a mutually acceptable method of evaluating the accuracy of the data, and the degree of precision required for the overall conclusions on its accuracy. Overall conclusions, together with supporting evidence, should be documented and retained.

Royalty holidays — The Department lacks procedures for detecting and investigating instances where producers are incorrectly reporting gas production as being exempt from royalty.

Operators of gas processing facilities report monthly to the Department the volumes of gas that are available for sale (VAS). They also allocate VAS to the owners of the wells. Owners are then required to report their VAS to the Department when calculating the royalty they pay. As a rule, gas is not sold before it is processed, and because processing usually reduces volume, VAS for a well cannot exceed production.

The Department administers incentive programs under which gas produced from "royalty holiday" wells is exempt from royalty for specified periods or up to specified values. During the 1987-88 audit, it was observed that VAS exceeded reported production for several royalty holiday wells, in some cases by significant amounts.

For a time, the Department produced reports of these exceptions but since the anomalies could not be explained, the reports were discontinued. However, it is important that these exceptions be investigated because, if production from normal wells is being incorrectly reported as production from royalty holiday wells, royalty is being foregone.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 17

It is recommended that the Department of Energy establish procedures for investigating instances where gas volumes available for sale are incorrectly reported as having been produced from royalty-exempt wells.

Reconciling natural gas volumes — In my 1985-86 and 1986-87 annual reports, I explained why the Department was not reconciling promptly the volumes of gas available for sale reported by gas processors, with the volumes reported by well owners. Because of this, the Department was not obtaining reasonable assurance that the Province was receiving promptly the royalties to which it is entitled.

I am pleased to report that the Department is now receiving volume reports from operators and owners more promptly, which is enabling it to reconcile volumes on a more timely basis.

Gas cost allowances — The Department needs procedures for detecting and investigating instances where it appears that gas cost allowances (GCA) have been allocated incorrectly to reduce the amount of royalty paid to the Province.

Well owners pay gas processors for processing both their own and the Province's share of natural gas. They are then allowed to deduct the cost of processing the Province's gas, which is the gas cost allowance, from the royalties they pay to the Province. The rate of GCA for a processing facility is based on the allowable operating costs, the capital cost allowance and the return on average net capital. The operating cost component of GCA is allocated to well owners based on annual throughput. All gas processed by facilities bears a pro rata share of GCA.

During the 1987-88 audit, instances were observed where volumes of gas from royalty holiday wells had not had GCA allocated to them. This might indicate that GCA, which should have been allocated to these wells, has been allocated to non-royalty holiday wells. If this has happened, the Province has not received the royalties to which it is entitled.

As the Department has not investigated these situations, I made the following recommendation in a management letter to the Deputy Minister at the conclusion of the audit:

Recommendation No. 18

It is recommended that the Department of Energy establish procedures for determining whether the correct amounts of gas cost allowance have been allocated to royalty holiday wells.

2.13.2 **Alberta Oil Sands Technology and Research Authority (AOSTRA)** — year ended March 31, 1988

Observations from Financial Audit Work

AOSTRA was established in 1974 under the Oil Sands Technology and Research Authority Act. Its purpose is to progress the development of new technology for recovering hydrocarbons from the Province's oil sands deposits and conventional petroleum reservoirs. AOSTRA's support for technology ranges from academic research to large-scale pilot projects.

Payment without legislative authority — During 1987-88, AOSTRA paid $269,000 in a manner that contravened the governing regulations.

AOSTRA supports technology development by entering into research agreements with interested parties. Section 3 of the Oil Sands Technology and Research Authority Regulations requires that AOSTRA enter into a binding agreement with a grant recipient before any grant may be made to a recipient.

During 1987-88, AOSTRA paid $269,000 for technology development to a company with which it had not entered into an agreement as required by section 3 of the regulations. It is understood that Management believed that the payment was authorized by AOSTRA's by-laws.

I have obtained an independent legal opinion which states that the payment referred to above was not made within the authority of section 3 of the regulations, and that AOSTRA's by-laws cannot override the requirements of the regulations.

In a management letter to the Chairman of AOSTRA at the conclusion of the audit, I made the following recommendation:

Recommendation No. 19

It is recommended that the Alberta Oil Sands Technology and Research Authority take more care in future to ensure that all grants paid satisfy the requirements of section 3 of the Oil Sands Technology and Research Authority Regulations.

Receipts lacking legislative authority — In my 1986-87 annual report (section 2.13.2), I commented on monies that had been paid from the Province's General Revenue Fund into the Alberta Oil Sands Technology and Research Fund without legislative authority. I recommended that the Authority seek proper legislative authority for any future payments of this nature.

I am pleased to report that the necessary legislative authority has since been obtained.

2.13.3 **Alberta Petroleum Marketing Commission** — year ended December 31, 1987

The annual financial audit was extended to include the following:

— An examination of the systems and procedures used by the Commission to monitor, and to assist in establishing, the price of crude oil that is "in the public interest of Alberta".

— An examination of the systems and procedures used by the Commission to reconcile the volumes of oil reported to the Department of Energy (for royalty calculation purposes) and the volumes reported as delivered to the Commission.

— An examination of the system used by the Commission to control costs by responsibility centre and to maintain control over its fixed assets.

— An examination of the systems used by the Commission to assess the performance of its staff.

2.13.4 Financial audits of the following were also completed:

Alberta Petroleum Incentives Program Fund — year ended March 31, 1988
Natural Gas Pricing Agreement Act Fund — year ended December 31, 1987
Natural Gas Pricing Agreement Market Development Fund — year ended December 31, 1987
Take-or-pay Costs Sharing Fund — year ended December 31, 1987

2.14 ENVIRONMENT

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report.

2.14.1 **Department of the Environment** — year ended March 31, 1988

The annual financial audit was extended to include an examination of the system used by the Department to record and control securities received under the authority of the Land Surface Conservation and Reclamation Act.

2.14.2 Financial audits of the following were also completed:

Alberta Environmental Research Trust — year ended December 31, 1987
Alberta Special Waste Management Corporation — year ended March 31, 1988
Environment Council of Alberta — year ended March 31, 1988
Surface Reclamation Fund — year ended March 31, 1988
Water Resources Revolving Fund — year ended March 31, 1988

2.15 EXECUTIVE COUNCIL

Of the matters reported to management, the following observations and recommendation were selected for inclusion in this report.

2.15.1 **Department of Executive Council** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the accounting and management controls used by Alberta Public Safety Services (APSS) to administer grants paid under the Disaster Assistance Regulation under the Public Safety Services Act.

— Audits of fifteen cost-sharing claims on the Government of Canada by APSS for expenditures under the Joint Emergency Planning Program.

Observations from Extended Audit Work

Cost-sharing claims — My reports on six of the cost-sharing claims contain reservations of opinion because I have been unable to satisfy myself as to the reasonableness of allocations of salaries and benefits included in the expenditures claimed.

Except for recording the nature of overtime worked, full time staff of APSS do not keep detailed records of how they spend their time. Therefore, the Audit Office is unable to verify that the allocations of salary and benefit costs in the cost-sharing claims are reasonable.

The report on one of the six claims contains a further reservation of opinion because the claim includes accommodation costs incurred by a project consultant. The Department has been unable to substantiate, to the Audit Office's satisfaction, that this expenditure complies with the Program's requirement that costs of this nature be incremental to normal ongoing expenses. The audit report on a seventh claim also contains a reservation of opinion because it is prepared in accordance with amended cost-sharing arrangements, the acceptability of which I have been unable to confirm with the Government of Canada.

In a management letter to the Managing Director of APSS at the conclusion of the audit, it was recommended that APSS consider instituting a time recording system so that employee time included in future cost-sharing claims can be determined and independently verified.

Observations from Financial Audit Work

Conflicting legislative provisions — In my 1986-87 annual report (section 2.15.1), I reported that the Oil and Gas Conservation Act and the Energy Resources Conservation Act were not in agreement as to funding that the Department of Executive Council could advance to the Energy Resources Conservation Board. I recommended that the Department seek legislative amendments to remove the conflict between the two Acts.

I am pleased to report that the Oil and Gas Conservation Act has been amended to remove the conflict.

2.15.2 **The Wild Rose Foundation** — year ended March 31, 1988

Observations from Financial Audit Work

In my 1986-87 annual report (section 2.15.3), I reported that during the previous two years the Foundation had contravened, or apparently contravened, the legislative authorities under which it operates. I also acknowledged that legislative changes were passed in June 1987 which legitimized several of the practices that were previously beyond the Foundation's authority. I recommended that the Foundation establish procedures designed to ensure that the grants it pays are within the authorities of the Wild Rose Foundation Act and related regulations.

I am pleased to report that during 1987-88, the Foundation established such procedures and that the annual audit revealed no instances of grant payments not complying with legislative requirements.

2.15.3 A financial audit of the **Energy Resources Conservation Board** was also completed for the year ended March 31, 1988.

2.16 FEDERAL AND INTERGOVERNMENTAL AFFAIRS

Of the matters reported to management, the observation below was selected for inclusion in this report.

2.16.1 **The Department of Federal and Intergovernmental Affairs** — year ended March 31, 1988

Observation from Financial Audit Work

In my 1986-87 annual report (section 2.16.1), I commented on the need for the Department to improve the control exercised over expenditures disbursed, both on its own account and on behalf of other Provincial departments, by Alberta's Foreign Offices. I recommended that the Department issue written guidelines designed to ensure that these expenditures are properly controlled and reported. I also recommended that Foreign Offices be required to obtain written approvals before they incur expenditures on behalf of other departments.

I am pleased to report that during 1987-88, the Department issued financial control and reporting guidelines which include the requirement that expenditures on behalf of other departments be pre-approved.

2.17 FORESTRY, LANDS AND WILDLIFE

Of the matters reported to management, the observation below was selected for inclusion in this report.

2.17.1 **Department of Forestry, Lands and Wildlife** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An audit of the Province's 1987-88 cost-sharing claim under the Waterfowl Crop Damage Prevention Agreement with the Government of Canada.

— An examination of the system used to monitor the completeness and accuracy of the timber royalties and timber export taxes collected by the Department.

— An examination of the system used to record and monitor the number of reported animal carcass incidents handled by the Enforcement Branch of the Department's Fish and Wildlife Division.

— An examination of the system used to monitor the completeness and accuracy of mineral surface leases and rental charges.

— An examination of the system used to monitor the completeness of revenue arising from Fish and Wildlife game licenses.

2.17.2 **Fish and Wildlife Trust Fund** — year ended March 31, 1988

Observation from Financial Audit Work

In my 1986-87 annual report (section 2.17.3), I commented that apparent restrictions imposed by a regulation could be overridden by the Wildlife Act. In my view, if it is, in fact, intended that a regulation should have the ability to restrict the power of a Minister, then such authority should be expressly stated in the statute. I recommended that the Department seek the necessary legislative changes to clarify the intention of Legislation.

I can now report that amendments to the Fish and Wildlife Trust Fund regulations clarify that the Minister by virtue of the Act has the authority to override the provisions of the regulations.

2.17.3 Financial audits of the following were also completed for the fiscal year ended March 31, 1988:

Forest Development Research Trust Fund
Forestry, Lands and Wildlife Revolving Fund
Homestead Lease Loan Fund

2.18 HOSPITALS AND MEDICAL CARE

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.18.1 **Department of Hospitals and Medical Care** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the appropriateness of the Department's systems and procedures to monitor and control hospital activities and determine the approximately $1.5 billion of operating grants paid each year to Alberta's active care hospitals.

— An examination of the procedures used by the Department each year to disburse approximately $15 million of sessional payments to psychiatrists.

— The provision of advice to the Department during the development of the proposed new Registration, Eligibility and Premium System and Claims System for the Alberta Health Care Insurance Fund.

Observations from Extended Audit Work

Operating grants to hospitals

The Department needs to improve its methods to monitor and control grants to hospitals for approved programs. In particular, the Department needs to:

— improve the information maintained on approved hospital programs,
— prepare a plan for the development of EDP systems at hospitals,
— obtain better information regarding hospital operations, and
— support funding decisions with better documentation.

The field of health care administration provides the challenge of balancing quality of care with an appropriate level of funding. The Department coordinates the delivery of health care services and annually provides financial assistance of approximately $1.5 billion to active care hospitals for approved hospital programs. These programs are provided by 123 active care hospitals, two federally operated hospitals and two mental health hospitals. Twelve hospitals receive about 50% of the funds.

Hospital programs — The Department does not maintain and use a well documented inventory of approved hospital programs to assist in coordinating the delivery of health care programs.

An inventory would disclose, as a minimum, the expected workload, space, staffing hours and related costs for each approved program. This information would indicate the activity levels that each hospital is expected to provide.

Legislation states that governing boards of hospitals have full control and absolute and final authority in respect of all matters pertaining to the operation of their hospitals. However, as stated in the annual Government Estimates, the Department is responsible for establishing, financing and coordinating the delivery of health care programs.

The Department has defined a hospital program as an organized service related directly or indirectly to patient care that can be uniquely identified and defined in terms of workload, space and cost.

Alberta Regulations require Ministerial approval before any changes are made in programs or services offered by hospitals. Also, the Minister is required to review hospital budgets and determine the operating grants payable, having regard to the size, location, type of hospital, in-patient and out-patient activity, approved hospital programs and any other factors considered relevant by the Minister. For these reasons, and the fact that the Department is the major funding source for hospitals in Alberta, Departmental systems should be designed to report on the extent that hospitals provide approved hospital programs that meet the Department's expectations.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve its procedures for monitoring approved hospital programs.

EDP systems at hospitals — The Department does not have a strategic plan for coordinating the development and implementation of EDP systems by hospitals.

The strategic plan should describe how the Department intends to promote the sharing of expertise with respect to EDP systems. Accordingly, the plan should include such matters as:

— which hospital operations can be assisted by EDP systems,

— how the Department intends to advise and assist hospitals in implementing or enhancing their EDP systems,

— the ways in which the Department intends to monitor EDP initiatives undertaken by hospitals, and

— the criteria the Department will use to evaluate hospital requests for funding EDP initiatives.

Perhaps the most important element of the plan should be how the Department intends to encourage hospitals to make use of proven systems already developed and implemented by other

hospitals in Alberta. Hospitals that need to implement or improve computer systems often acquire or develop new systems on their own. It is likely that the computer system requirements of similarly sized hospitals are comparable. By matching proven systems with needs for new or enhanced systems, the Department could realize significant savings and also facilitate the acquisition process. An essential first step is an inventory of existing systems.

During the past six years the Department has provided approximately $30 million to hospitals to develop EDP systems. In addition, funds are provided for EDP systems in the new urban hospitals and in other new hospital construction. However, the Department has not maintained a well documented inventory of systems developed through this funding.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 20

It is recommended that the Department of Hospitals and Medical Care prepare, and communicate to hospital administrators, a strategic plan for coordinating the development of EDP systems by hospitals.

Information on hospital operations — In 1985 the Department implemented the Institutional Reporting Information System (IRIS) to provide a computerized database of information about hospital operations. The system was primarily implemented to assist hospital managers, but also to provide information to the Department. The following deficiencies were noted in the operation of IRIS:

— IRIS does not automatically produce exception reports to assist Management to monitor hospital operations. Also, IRIS does not readily permit ad-hoc analysis of its database of information. Using its own computer software, the Audit Office demonstrated that, for example, it is possible to analyze IRIS data by workload, staffing and costs for groups of hospitals with similar numbers of beds. Such analyses should be produced regularly or be obtainable easily so that Management can direct its attention to resolving identified but unexplained exceptions in hospitals' operations.

— IRIS has not been designed to report incomplete or unreasonable relationships in costs, workloads and staffing data submitted by hospitals. Audit staff examined the IRIS data submissions for March 1986 and March 1987. These examinations revealed many instances of incomplete relationships of costs, workloads and staffing. Consistent relationships are essential if the IRIS data is to be useful for establishing budgets, monitoring hospital activities and providing hospital managers with performance indicators.

— IRIS does not have hospital profile information. When comparing hospitals of similar size, the analyses should consider other information that may be important regarding individual hospital operations and funding. Examples could include beds per ward, ages of hospitals, their physical design, types of programs and staff mixes. Including some of this information on the database may help to ensure that only similar hospitals are compared.

— IRIS does not facilitate electronic transmission of data directly from hospitals. Electronic transmission would reduce delays in making the data available for use by the hospitals and the Department.

Financial assistance for active care hospitals is the largest expenditure program in the Government and the computer systems should support its delivery. Accordingly, the Department should endeavour to implement satisfactory computer systems to support the Department's decision making activities and the monitoring and controlling of hospital grants. IRIS has potential for providing the Department with information that can assist in making decisions about hospital funding. However, the way in which information on hospital operations is presented needs to be improved.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 21

It is recommended that the Department of Hospitals and Medical Care improve its computer systems to provide better information regarding hospital activities than is currently provided by the Institutional Reporting Information System.

Documentation supporting grant payment decisions — There are deficiencies in the documentation supporting funding decisions.

With respect to budget files maintained for each hospital:

— there is no definition of the structure and documentation required for budget files. The budget files examined by Audit staff contained letters, memorandums and other documents that appeared to have little impact on funding decisions. Some files contained the same information in more than one place.

  Improved structure and documentation in the budget files would provide senior management with improved information to support funding recommendations. Without adequate support, a risk exists that the Department may make inappropriate funding recommendations because important facts are overlooked. In addition, documentation on the budget files can provide valuable information to assist in future funding decisions and completion of reviews,

— there are no formal guidelines specifying the supporting documentation to be included with Expenditure/Transfer Authorities (ETAs). ETAs are forms signed to approve transfers of grant funds to hospitals. In the absence of guidelines, varying levels of detail are being attached to ETAs. This is illustrated by:

  — One ETA used to increase funding by $539,614 for a hospital indicated only that the increase was due to "increased admissions and decreased length of stay." It gave no information explaining how the funding increase was determined.

  — Another ETA was well documented and provided detailed workload projections, staffing requirements and cost allocations to support an increase of $163,856 to establish a Human Toxicology Service.

  ETA documentation standards would provide Departmental staff with direction regarding information considered necessary to support funding decisions,

— expected reviews of hospital surpluses and deficits are not being performed. Departmental staff are expected to review surpluses and deficits for each hospital at the end of six, eight, and ten months using comparison/projection reports. Of eight hospital files examined, only one contained an eight month comparison/projection report. Audit staff found no documentary evidence of ten month comparison/projection reports, and

— audit staff found no documentary evidence of in-depth reviews in the files examined. Departmental staff stated that they performed in-depth reviews when they identified funding problems.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 22

It is recommended that the Department of Hospitals and Medical Care revise its documentation standards in order to improve the quality of information used in making grant payment decisions.

Policy Manual — The draft of the new Institutional Operations Branch Policy Manual does not deal properly with the purposes of operational reviews, inspection visits and post-occupancy reviews that Departmental staff conduct at individual hospitals.

The Manual could give guidance regarding the objectives and benefits of the different types of visits. It could also assist in proper and consistent planning, completion and reporting of each visit.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department complete promptly the proposed Policy Manual and include detailed guidance on all types of hospital visits.

Sessional payments

The Department's system for making sessional payments to certain psychiatric physicians is unsatisfactory.

The sessional payments system was implemented in 1980 to administer payments to psychiatrists who work part time at institutions and clinics run by the Province. It was intended that the system would allow the Department to monitor and control payments and allow the then Department of Social Services and Community Health to monitor and control the time spent by the physicians at the institutions and clinics.

In May 1988, the Department of Hospitals and Medical Care completed a study of the present system. The system is cumbersome. Excessive paperwork flows within the Department and between the Department and the institutions and clinics. The system is not assisted by automated procedures and there is duplication of effort to verify payments.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the sessional payments system.

Observations from Financial Audit Work

Relationship with the Medical Practice Audit Committee — In my 1986-87 annual report (section 2.18.1), I recommended that the Department improve its system for supporting the work of the Medical Practice Audit Committee (MPAC) of the College of Physicians and Surgeons and obtain information from the Committee and the Registrar of the College regarding the disposition of each review of the services provided by medical practitioners.

The Department has procedures for monitoring and controlling payments to medical practitioners and for identifying, in conjunction with the MPAC, instances of abuse. However, the Department can further facilitate the work of the MPAC and obtain better assurance regarding MPAC reviews of services provided by medical practitioners.

The Department is currently enhancing its systems to provide the College and the Department with improved information on the services provided by physicians. This work has been delayed due to implementation problems with another system.

As my concerns have not yet been satisfactorily resolved, I repeated my previous recommendation in a management letter to the Deputy Minister at the conclusion of the audit:

Recommendation No. 23

It is recommended that the Department of Hospitals and Medical Care improve its system for supporting the work of the Medical Practice Audit Committee and obtain information from the Committee and the Registrar of the College regarding the disposition of each review of services provided by medical practitioners.

Profiles for non-medical practitioners and registrants — In my 1986-87 annual report (section 2.18.1), I recommended that the Department extend its system for producing and reviewing profiles to all non-medical practitioners and registrants. A profile shows a pattern of practice for a practitioner and would show a pattern of use by a registrant of the health care system.

The Department is reviewing the system for producing and reviewing profiles of medical practitioners. It is intended that any enhancements to the systems should include provision for non-medical practitioner and registrant profiles. However, it will be some time before the Department is able to make the necessary changes. The new claims system will also impact the quality of profile information that the system can produce.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I repeated my previous recommendation:

Recommendation No. 24

It is recommended that the Department of Hospitals and Medical Care extend its system for producing and reviewing profiles to all non-medical practitioners and registrants.

Nursing homes — In my 1986-87 annual report (section 2.18.1), I recommended that the Department improve its procedures for monitoring the activities of nursing homes and for determining whether value is being obtained for the funding provided.

The Department has developed new procedures to determine funding requirements for nursing homes. Extensive work is being performed to assess nursing home residents. These actions address my previously reported concerns and the recommendation is not repeated.

In my 1986-87 annual report (section 2.18.1), I also recommended that the Department define clearly which services provided to nursing home residents are covered by "personal services", and ensure that such services are charged for consistently.

The Department is reviewing the provision of personal services to nursing home residents and has indicated that guidance will be issued to nursing home operators. Progress will be monitored during future audits.

2.18.2 **Health Care Insurance Fund** — year ended March 31, 1988

Observations from Financial Audit Work

Alberta Blue Cross Plan — The Plan is reimbursed for optional health services that it pays on behalf of registrants who have arranged optional health coverage with the Fund. The Fund's payments to the Plan have grown from approximately $74 million in 1984-85 to approximately $109 million in the year ended March 31, 1988.

My last two annual reports have commented on deficiencies originally identified in the 1984-85 Report of the Auditor General. Although the Department has improved its control over reimbursements to the Plan, control is not yet adequate.

The 1987-88 audit disclosed apparent discrepancies in claims paid by the Plan on behalf of the Fund. Instances were observed of recorded service dates later than the payment dates, payments for claims which exceeded the Plan's one year deadline, and payments for registrants lacking the appropriate coverage.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department institute procedures to ensure that payments made by the Alberta Blue Cross Plan are valid and only include payments for residents who have coverage for optional health services at the date the services are provided.

Claims — The Department's Internal Audit Branch audits a significant number of claims processed for payment. As in prior years, the Audit Office examined the scope and results of the Branch's work and determined that it could continue to rely on this work and avoid duplication of audit effort. The Branch's annual report for the 1987-88 year again projected significant overpayments and under-recoveries of claims paid amounting to approximately $4.8 million (1986-87 $4.1 million).

These projected overpayments result from inadequate or incomplete edit criteria for processing claim payments, inappropriate use of manual override codes by clerical staff, misinterpretation and inappropriate application of the Schedule of Medical Benefits. Under-recoveries result from inadequate procedures to identify and recover The Workers' Compensation Board responsibility claims. My last two annual reports have commented on these deficiencies originally identified in the 1984-85 Report of the Auditor General.

The Department has not yet implemented new procedures that would prevent inappropriate payments or under-recoveries of claims. However, I acknowledge that the Department is giving greater attention to identifying and implementing needed systems changes.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Recommendation No. 25

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Hospitals and Medical Care improve its systems in order to reduce the incidence of inappropriate claim payments and to ensure that all claims that are the responsibility of The Workers' Compensation Board are recovered.

Payments system — The Department has not reconciled its bank account for Fund transactions since April 1987. A new payment system for Fund transactions, implemented during the year, prevented a proper reconciliation of the bank account.

A post implementation review of the payment system conducted by the Department only examined certain technical aspects and failed to identify problems with the bank reconciliations.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that, in relation to the administration of the Health Care Insurance Fund, the Department institute procedures to ensure that bank account reconciliations are properly prepared on a regular basis and that the reconciliations are carefully reviewed by senior staff.

Premiums receivable — There is poor control over completeness of premium revenue.

Summary reports used to record premiums receivable in the general ledger at the year end did not agree with the trial balance of individual accounts. This resulted in an understatement in premium revenue and receivables of approximately $1.8 million. The Department was not aware of the error

until advised by the Audit Office. The error was attributed to a deficiency in a computer program that produced the summary report. Departmental staff could not resolve the problem quickly as the only person knowledgeable about the computer program was on vacation.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that, in relation to the administration of the Health Care Insurance Fund, the Department ensure that the general ledger disclose correct balances for premiums receivable.

Applications for premium assistance — The Department needs to review its procedures for determining that premium subsidies are granted only to eligible registrants.

Eligibility for premium assistance is based on applicants' taxable income of the preceding taxation year and subsidy forms signed by registrants provide the Department with authority to confirm income with Revenue Canada. As the Department provides a substantial amount in premium subsidies each year (1987-88 approximately $38 million), it is important that it gains reasonable assurance that applicants provide correct information.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve its procedures for processing applications for subsidized premiums. The Department has indicated that it will review procedures for verification of taxable income.

2.18.3 HOSPITALS

The Provincially-owned hospitals and their related foundations operate under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals, University Hospitals Foundation and Mental Health Acts. The financial statements of these Provincial corporations are not included in the public accounts, nor are the entities reflected in the consolidated financial statements of the Province. The Auditor General has commented on this matter in section 2.2.1 of this report. The Minister of Hospitals and Medical Care, who is charged with the administration of the above Acts, is required to table annually copies of the audited financial statements of these hospitals.

The annual financial audits of these hospitals were extended to include an examination of the types and levels of information provided to the hospitals' Boards of Directors. The Canadian Comprehensive Auditing Foundation publication, Canadian Hospitals — Accountability and information for cost-effectiveness — An Agenda for Action, was used as a basis for discussion with various Boards of Directors.

The following general observations resulted from this examination:

— there are significant differences in the types of information provided to, or requested by, the Boards of Directors;

— most hospitals have adopted, or are developing, mission statements but no hospitals have established procedures to measure and report on success relative to the mission;

— none of the Boards received regular information on the cost of surgical procedures or hospital beds; and

— most hospitals have not established "hospital services utilization committees" to review and report on the utilization of hospital services in relation to patient care.

Boards face a tremendous challenge to maintain or improve quality of care. This examination has contributed to an increased awareness on the part of several hospital Boards about the types of information needed to discharge their responsibilities. In some cases new information requirements

have been identified to enable the Boards to become active participants in planning and policy setting, rather than to be mainly involved in the resolution of problems.

To date, the work of the Audit Office has been general in nature. Further audit examinations will be carried out to refine the original observations and provide individual hospital boards with specific recommendations.

2.18.4 **Alberta Cancer Board** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the Hospital's cash management procedures.

— An examination of the system used by the Hospital to record and control patient revenue.

— An examination of the system used by the Hospital to control and record research grants.

2.18.5 **Alberta Children's Provincial General Hospital** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of systems used by the Hospital to control the development, implementation and operation of electronic data processing systems.

— Audits of the separate financial statements of the Intensive Family Therapy Program and the Child Abuse Program for the year ended March 31, 1988.

Observations from Extended Audit Work

Computer systems — The Hospital has reasonable controls to restrict physical access to hardware and software, to provide uninterrupted electrical supply and to reduce the threat from fire. It needs, however, to improve its planning and control for developing and implementing new EDP systems.

The Audit Office examined strategic planning for EDP systems and hardware, controls over the hardware with respect to physical access, fire protection, electrical supply and disaster recovery, and the removal of certain systems from service bureaus to the Hospital's computing facility.

As of December 1, 1988, the Hospital continued to use service bureau facilities although it had planned to eliminate their use by the end of August 1988. During testing of the systems to be moved, it became apparent that the Hospital's existing computer resources may not satisfactorily operate those systems and continue to provide reasonable response times to all users. During early planning of the removal project, the manufacturer of the Hospital's computer indicated that the Hospital would likely need more hardware.

In addition to problems related to moving certain systems, there is no evidence that the Hospital has prepared a comprehensive plan for the future development of EDP systems. Such a plan should include:

— the standards for the development and implementation of EDP systems, and how the standards are to be maintained and enforced; and

— the expected impact of EDP technology on organizational methods and program delivery.

The Hospital's use of computers and computer technology will influence its quality of management and the procedures used to record and make available patient information. However, systems once developed and implemented are difficult to modify.

Accordingly, in a management letter to the Hospital's Executive Director at the conclusion of the audit, I made the following recommendation:

Recommendation No. 26

It is recommended that the Alberta Children's Provincial General Hospital again analyze the benefits and cost of moving the financial information and statistical reporting systems to its own computing facility. The Hospital should also review the adequacy of its hardware and develop a comprehensive plan for the future development of EDP systems.

2.18.6 **Alberta Hospital Edmonton** — year ended March 31, 1988

Observations from Financial Audit Work

Fixed assets — Management does not conduct periodic physical counts to verify the continued existence of the Hospital's fixed assets. Furthermore, the subsidiary ledgers used to record fixed assets are not being reconciled to the general ledger regularly.

In a management letter to the Hospital's Executive Director at the conclusion of the audit, it was recommended that a complete inventory of assets be taken and any necessary adjustments be made to the fixed asset records. To ensure that fixed asset records remain accurate, periodic rotational counts should be performed.

2.18.7 **Foothills Provincial General Hospital** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the Hospital's cash management procedures.

— An examination of the Hospital's system for controlling the levels of supplies.

— An examination of the development plan for a new Patient Care Information System.

— An audit of the expenditures and revenues of the Cardiac Surgery renovation project.

2.18.8 **University Hospitals Board** — year ended March 31, 1988

The annual financial audit was extended to include:

— An examination of the systems used by the Board to control and account for revenues from outpatient pharmacy, and from nutrition and food services.

— An examination of the budgetary systems used to allocate resources to the Hospitals' various departments.

Observations from Financial Audit Work

In my 1986-87 annual report (section 2.18.9), I reported that there were weaknesses in the Board's systems for billing outpatient revenues and that fixed assets had not been adequately controlled. I also reported that there had been a theft in the Outpatient Pharmacy where sales were not being fully accounted for.

During the 1987-88 annual audit, the Audit Office confirmed that the Board has taken corrective action to address these concerns. A Board instituted task force identified and invoiced unbilled amounts for outpatient visits. The billing systems for such revenues are in the process of being automated. Board staff also took an inventory of fixed assets and adjustments were made in the financial statements for the year ended March 31, 1988 to reflect assets that had been disposed of and items that could not be located.

The former employee responsible for the theft at the Outpatient Pharmacy was charged and convicted. The Board has made a claim for recovery of misappropriated funds from the insurance company.

2.18.9 **Alberta Cancer Foundation** — year ended March 31, 1988
Alberta Hospital Edmonton Foundation — year ended March 31, 1988
University Hospitals Foundation — year ended March 31, 1988

My reports on the financial statements of the Foundations for the year ended March 31, 1988 contained reservations of opinion because, as explained in section 3.2.2 of this report, the Foundations receive donation revenue which is not susceptible of complete audit verification.

2.18.10 Financial audits of the following were also completed:

Alberta Hospital Ponoka — year ended March 31, 1988
Alberta Urban Hospitals Project Management Ltd. — year ended March 31, 1988
Edmonton Area Hospital Advisory Council Fund — year ended March 31, 1988
Glenrose Rehabilitation Hospital — year ended March 31, 1988
Northern Alberta Children's Hospital — year ended March 31, 1988

2.19 LABOUR

Of the matters reported to management, the observation below was selected for inclusion in this report.

2.19.1 **Department of Labour** — year ended March 31, 1988

The annual financial audit was extended to include an examination of the systems and procedures used by the Department to report expenditures relating to the Long-term Disability Fund.

As the recommendation that resulted from this work was addressed to the Treasury Department, it is reported in section 2.28.2 of this report.

2.19.2 A financial audit of the **Personnel Administration Office Revolving Fund** was also completed for the year ended March 31, 1988.

2.20 MUNICIPAL AFFAIRS

Of the matters reported to management, the following observations and recommendations were selected for inclusion in this report.

2.20.1 **Department of Municipal Affairs** — year ended March 31, 1988

The annual financial audit was extended to include examinations of the accounting and management controls used by the Department to administer the Municipal Debenture Interest Rebate Program and property owner tax rebates under the Property Tax Reduction Act.

2.20.2 **Alberta Mortgage and Housing Corporation** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the systems and procedures used to control and report on revenues and expenditures associated with the Corporation's land and housing programs.

— An examination of the system used for valuing mortgages in the Corporation's multi-unit rental program.

— Audits of the Corporation's 1986-87 and 1987-88 claims for cost-sharing Housing Program expenditures under agreements with the Government of Canada.

Observations from Extended Audit Work

Investments in mortgages, housing and land — The Corporation needs to improve the information that it uses to manage its mortgages, and its land and housing investments.

Many of the Corporation's control and information systems were developed several years ago. As the Corporation's activities changed, these systems have not been modified to meet Management's changing information needs. The result is that the Corporation is now served poorly by its systems. For example, the system used to manage mortgages in arrears does not, in all cases, contain recent appraisal values of the properties mortgaged. This type of information, together with better information on the cash flow that the properties are generating, could help the Corporation develop better collection strategies.

The systems used to control and manage the Corporation's housing and land investment programs are similarly deficient. For example, the housing system cannot report fully the revenues and expenses for the numerous housing projects owned by the Corporation and managed by its corporate agents.

In my 1986-87 annual report (section 2.20.2), I observed that four separate computer systems are used to collect information on the Corporation's land investment programs. Despite this, much of the information needed to manage these programs well is not recorded on the systems. A manual accounting system has been set up to provide the information needed to calculate gains and losses on real estate lots. This system has difficulty coping with the volume of transactions involved, with the result that management reports on land holdings are often late, inaccurate or incomplete.

In my 1986-87 annual report, I recommended that the Corporation develop a system capable of providing accurate, complete and timely information to manage and control its land programs. The 1987-88 audit revealed, however, that although a systems review has begun, the situation has remained largely unchanged.

Much of the information needed to manage mortgages, and land and housing investments, can be obtained only by investing considerable time and effort. This creates potential for making decisions on the basis of insufficient information, or exercising inadequate control over these assets.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 27

It is recommended that the Alberta Mortgage and Housing Corporation determine its management information needs and priorities, and develop or modify its systems accordingly to improve the quality and completeness of the information used to manage the Corporation's mortgages, land and housing investments.

Financial reporting — Although the Corporation has improved significantly the form of its annual financial statements, there is still scope for improving the way that it reports its program revenues and expenditures.

In my 1986-87 annual report, I suggested that the Corporation's annual financial statements were complicated, and recommended that the Corporation's Corporate account and Mortgage Investment Fund be consolidated into one account. I am pleased to report that the Corporation adopted this recommendation when preparing its 1987-88 financial statements. In my view, the statements are now much more understandable, though there is scope for further improvement.

The Corporation has agreed to improve future annual financial statements by reporting revenues and expenditures by program. However, it intends to continue using the same basis that it currently uses to amortize the capital costs of housing program assets.

Under this method, capital costs (including land) are amortized at a rate equal to the rate at which the long-term debt financing the program is retired. A more usual and generally accepted method would be to amortize these costs over the estimated useful life of the assets. The problem is compounded by including the value of land in the amortization calculation.

The Corporation accounts for the fixed assets that it acquires for its own corporate use in a different way. It treats these costs as expenses in the years in which the assets are acquired or paid for. Although this accounting treatment is sometimes used by public sector organizations, it does not accord with generally accepted accounting principles.

The main concern, however, is with the effect of these accounting policies. Instead of the costs of these assets being charged to programs and operations during the fiscal periods when the assets are consumed, they are charged based on the conditions of the financing that was put in place to pay for them. The Corporation's annual financial statements would undoubtedly be improved by depreciating all fixed assets, whether used for program or general corporate purposes, over their estimated useful life.

In a management letter to the Corporation's President at the conclusion of the audit, I made the following recommendation:

Recommendation No. 28

It is recommended that the Alberta Mortgage and Housing Corporation report the results of its operations in its annual financial statements in a manner that will better disclose its program revenues and expenditures.

Cost-sharing claims — Certain project records relating to subsidies under the Non-Profit Housing Program were not available for audit examination, because of the disproportionate cost and difficulty of producing them. Further, at the date of the audit, agreement had not been reached between the Corporation and the Canada Mortgage and Housing Corporation on the basis for determining the eligibility of promotion costs included in the claims. For these two reasons, my reports on the cost sharing claims for 1986-87 and 1987-88 contained reservations of opinion.

2.20.3 **Improvement Districts' Trust Account** — year ended December 31, 1987

Observation from Financial Audit Work

My report on the Trust Account's financial statements for 1987 contained a reservation of opinion because the statements do not include certain assets and liabilities which were transferred to the Trust Account.

In December 1987, Improvement District Number 222 was created from land that was previously part of Improvement District Number 14 and land annexed from adjoining municipalities. When the 1987 financial statements were finalized, however, the total value of assets and liabilities transferred to Improvement District Number 222 had not been determined.

2.20.4 **Metis Population Betterment Trust Account** — year ended March 31, 1988

Observations from Financial Audit Work

Legislative authorities — Various previously reported irregularities relating to the establishment and administration of the Trust Account persisted throughout 1987-88.

I commented on these irregularities in my last four annual reports (1986-87 section 2.20.3). The main problem concerns doubts as to the legality of the Trust Account. I have a legal opinion which states that the Trust Account is not legally constituted because section 8 of The Metis Betterment Act does not have the authority to create such a fund. If the Trust Account is not legally constituted, then the revenue it receives, the expenditures it makes, the assets it acquires, and the liabilities it incurs, all lack legislative authority.

Another problem concerns the manner in which the members are appointed and elected to the local boards of the eight settlement associations established under the Act. The method used does not comply with section 4(3) of the Act. In addition, the legislation governing the payment of honoraria to board members appears to be inconclusive or flawed. These two concerns cast considerable doubt on the legitimacy of honoraria paid to board members by the Department of Municipal Affairs.

In my last four reports I recommended that, as soon as practical, action be taken to resolve the various problems relating to non-compliance with, and inadequacies in, the Trust Account's legislative authorities.

In a report to the Public Accounts Committee, the Provincial Treasurer responded to my 1986-87 recommendation by stating that amending legislation has been drafted. In July 1988, the Metis Settlements Act and the Metis Settlements Land Act were given first reading in the Legislative Assembly.

Since then, my representatives have examined Bills 64 and 65 to see how they address the above problems. It appears, however, that the proposed legislation will not resolve the problems. Accordingly, I brought this concern to the attention of the Deputy Minister in a management letter and again made the following recommendation:

Recommendation No. 29

It is recommended that, as soon as practical, action be taken by the Department of Municipal Affairs to resolve the various problems relating to non-compliance with the legislative authorities pertaining to the establishment and administration of The Metis Betterment Act.

2.20.5 Financial audits of the following were also completed:

Alberta Planning Fund — year ended March 31, 1988
Metis Settlements Trust Fund — year ended March 31, 1988
Special Areas Trust Account — year ended December 31, 1987

2.21 PUBLIC WORKS, SUPPLY AND SERVICES

Of the matters reported to management, the observations and recommendation below were selected for inclusion in this report.

2.21.1 **Department of Public Works, Supply and Services** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the system used by the Department to acquire leases and to control and record revenues from leases.

— An examination of the Department's newly-implemented Financial Project System.

— An examination of the systems used by the Department to acquire and control telecommunication equipment.

— An examination of the controls exercised over the completeness and accuracy of data input to the Department's Financial Project system and the Province's central (DFS/CFS) financial accounting and reporting system.

Observation from Extended Audit Work

The systems used by the Department to control its leased and owned telecommunication equipment need improving.

The Department's Telecommunications Division is responsible for acquiring and controlling telecommunication equipment for many of the Province's buildings. However, it does not verify that the equipment exists, is properly safeguarded, and is being utilized.

The Division also handles approximately 1,500 equipment leases, and maintenance and option-to-purchase contracts each year. Details of contracts are recorded on a micro-computer system which is used to monitor their progress and processing. However, there are no procedures for ensuring that all such contracts are recorded promptly on the system, or that recorded data is accurate and complete. In at least one instance, the recording of incorrect data for an option-to-purchase contract resulted in the Department failing to take advantage of an option.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department verify periodically the physical existence of the telecommunication equipment for which it is responsible. It should also address the need to determine whether equipment, both owned and leased, is being properly utilized. It was also suggested that the Department establish procedures designed to ensure that all contract information and changes thereto is recorded promptly and accurately on the computer system.

It is understood that the Department has commenced checking on the physical existence of some of its telecommunication equipment, and has assigned a staff member the responsibility for controlling contract data.

Observation from Financial Audit Work

In my 1986-87 annual report (section 2.21.1), I reported that the Department has adequate systems for planning and implementing special purpose construction projects undertaken for other government organizations. I noted, however, that the Department does not assess the appropriateness of these projects, even though it is accountable to the Legislative Assembly for the money spent.

Both the Department and the Government have since indicated that they are satisfied with the way things are at present, and intend to leave them unchanged. Accordingly, the Audit Office will review the effects of this somewhat unusual division of responsibilities during future audits.

2.21.2 A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1988.

2.22 RECREATION AND PARKS

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.22.1 **Department of Recreation and Parks** — year ended March 31, 1988

The annual financial audit was extended to include an examination of the systems and procedures used by the Department to control and account for contract expenditures and revenues.

Observations from Extended Audit Work

Non-compliance with financial accountability policies — In 1985 and again in 1987, the Department did not account for certain expenditures in accordance with established accounting policies.

In 1985 and in 1987, the Department entered into contracts with Kan Alta Golf Management Ltd., under which Kan Alta agreed to have buildings constructed for the Department on the Kananaskis golf course. The contracts required Kan Alta to arrange financing for the construction and to deduct financing costs and debt repayments from rent paid to the Province by Kan Alta to lease the golf course from the Province.

Construction costs incurred by Kan Alta during 1984-85 and 1986-87 amounted to $607,500 and $853,200 respectively. Financing repayments deducted from rent paid to the Province amounted to $67,500 in 1985-86, $138,600 in 1986-87 and $138,600 in 1987-88.

These expenditures and the associated liabilities were not reported in the Province's public accounts. Instead, Provincial revenues were reduced by the financing repayments deducted from rental income.

Offsetting expenditures against revenues in this way is contrary to established policy. Public Sector Accounting Statement No.3 issued by the Canadian Institute of Chartered Accountants recommends that "financial statements should disclose the gross amounts of expenditure." Netting of revenues and expenditures is not appropriate.

Further, these expenditures were not approved by the Legislature. Legislative approval would have been required had the expenditures been made directly from the General Revenue Fund. Accordingly, by contracting to allow Kan Alta to offset expenditures against revenues, and reporting them

net in the public accounts, the Department avoided legislative approval and contravened accepted financial reporting policies.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 30

It is recommended that the Department of Recreation and Parks comply with established financial reporting policies and make expenditures only from monies appropriated for that purpose by the Legislative Assembly.

Overpayments — The Department has not taken steps to recover expenditures made in excess of requirements.

The Department is obligated contractually to cost-share the Kananaskis Village Resort (KVRA) Association's operations and marketing activities. However, the Department's share of costs for a particular year is limited to the lesser of a prescribed amount and a prescribed percentage of KVRA's actual expenditures.

During the three years ended March 31, 1988, the Department paid KVRA more than $1,526,000, which exceeded by $635,000 the amount it was required to pay. The Department has not attempted to recover the overpayments.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 31

It is recommended that the Department of Recreation and Parks take steps to recover monies paid to Kananaskis Village Resort Association in excess of contractual obligations.

2.22.2 **Alberta Sport Council** — year ended March 31, 1988

Observation from Financial Audit Work

Monitoring grant expenditures — During 1987-88, the Council did not exercise its right, nor meet its responsibility, to monitor whether the funding provided to sport associations was used for the purposes intended.

During 1986-87, the Council began reviewing and evaluating the activities of the sports associations it funds. These procedures, however, do not provide assurance that the funds are used by the associations for the purposes intended by the Council. As such, the Council is not meeting its responsibility of determining whether the associations are adhering to the conditions contained in the agreements under which they receive their funding.

Similar concerns were expressed in management letters to the Council's Chairman following the 1984-85, 1985-86 and 1986-87 audits, and in my annual reports for 1985-86 and 1986-87. In a management letter at the conclusion of the 1987-88 audit, it was again recommended that the procedures used by the Council, to monitor the activities of the sports associations it funds, be extended to include examining the expenditures of such associations to obtain assurance that the funding is being used for the purposes intended.

It is understood that the Council has since developed and implemented procedures designed to satisfy this recommendation.

Financial statements — My report on the financial statements for 1987-88 contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Council receives donation revenue which is not susceptible of audit verification.

2.22.3 **The Recreation, Parks and Wildlife Foundation** — year ended March 31, 1988

The annual financial audit was extended to include a further examination of the system used by the Council to monitor how organizations funded by the Council use such funds.

Observations from Financial Audit Work

Non-compliance with legislation — During 1987-88, the Foundation made payments that were not in compliance with conditions imposed by the prevailing legislation.

Subsection 2(5) of the Recreation, Parks and Wildlife Act states that "The Minister may prescribe the rate of remuneration and the subsistence and travelling expenses to be paid to members of the Foundation and the Secretary". Subsection 2(6) of the Act states that "Any payment made pursuant to subsection (5) shall be made from money voted by the Legislature for that purpose".

During 1987-88, more than $32,000 was paid to Foundation Members for remuneration, subsistence and travelling expenses. Since the Foundation did not receive any voted funds for that year, these payments were from the Foundation's general funds, and therefore contravened the provisions of the Act.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that care be taken in future to ensure that all Foundation expenditures comply with the provisions of the Recreation, Parks and Wildlife Act.

Monitoring grant expenditures — In my 1986-87 annual report (section 2.22.3), I recommended that the Foundation improve the procedures that it uses to determine whether the grants it pays to the organizations it funds are used for the purposes intended.

I am pleased to report that during 1987-88, the Foundation took corrective action which has resolved my previously reported concerns.

Financial statements — My report on the financial statements for 1987-88 contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Foundation receives donation revenue which is not susceptible of audit verification.

2.22.4 A financial audit of the **Recreation and Parks Revolving Fund** was also completed for the year ended March 31, 1988.

2.23 SOCIAL SERVICES

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.23.1 **Department of Social Services** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the systems used by the Department to control annual expenditures of approximately $600 million under the Social Allowance and Assured Income for the Severely Handicapped programs. This also included examining the procedures used for ensuring compliance with the Department's policies and Income Security Programs Manual.

— An examination of the systems and procedures used by the Department to license child care facility operators and to control annual payments to them of approximately $63 million under the Department's child care programs.

— An audit of several annual cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement with the Government of Canada.

— An examination of the accounting system and internal controls in place at, and the accountability provided to the Department by, the Michener Centre, Red Deer.

Observations from Extended Audit Work

Social Allowance and Alberta Assured Income for the Severely Handicapped (AISH) Programs

In my 1986-87 annual report, I commented on numerous long-standing deficiencies in the systems used by the Department to control and record expenditures, and to verify the eligibility of benefit entitlements, under the Social Allowance and AISH programs. I also indicated that there is considerable scope for enabling the systems to provide more extensive program delivery information.

The Social Allowance Program provides assistance to people in need. This involves providing the money, goods and/or services essential to health and well-being, as defined in legislation. The AISH Program is an income-tested program that provides financial and health benefits for handicapped adults. The Department refers to people who receive benefits under these programs as clients.

During 1987-88, these systems were again examined by the Audit Office as part of a broader-based examination of the systems used to administer these Programs. The district and corporate office program delivery systems were examined, together with a selection of payment transactions from nine district offices. It was again concluded that there are serious problems with the systems.

Payment procedures — District offices are not complying with the payment standards and procedures contained in the Department's Income and Security Programs Manual. The Manual is designed to help district office staff ensure that benefits are paid only to eligible clients and for identified needs. Of the client files examined during the audit, 20% lacked the required documentation regarding the identity of clients and their dependents. An additional 4% lacked the required rent reports and 4% lacked other required forms.

Audit tests also identified payments which did not comply with procedures in the Income Security Programs Manual. These included:

— the provision of allowances (transportation, laundry, special diet, etc.) to clients who were not entitled to receive them;

— the incomplete identification and recording of clients' incomes when determining net needs (e.g. an individual identified as a trapper but not declaring any trapping income); and

— duplicate payments due to administrative error.

Based on the errors found, it is estimated that, during the year ended July 1988, overpayments were $14.1 million and underpayments were $850,000. The errors all occurred in files previously reviewed by Departmental staff.

There are also weaknesses in the procedures used to control and process district office cheques and vouchers. These weaknesses could result in cheques and vouchers being used without proper authorization. Control over district office cheques could be improved by monitoring the serial numbers of cheques issued and used. For vouchers, spot checks between voucher logs and the clients' hard copy files would provide improved assurance that vouchers issued are valid.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 32

It is recommended that the Department of Social Services improve the payment procedures at its district offices and strengthen compliance with standards and procedures in the Income Security Programs Manual.

Computer data verification procedures — More use should be made of computer data verification procedures to improve the accuracy of the data on the computer system used to disburse and record program benefits.

The system's data contains many coding and other inaccuracies. For example, during a one year period, payments totalling more than $1 million were processed using invalid district office codes and $71,000 was paid to clients for whom the system did not have valid client numbers. The system's files contain numerous duplicate social insurance numbers and Alberta Health Care numbers, and clients classified as employables are sometimes recorded as single parent families.

Unreliable data of this nature can indicate and cause a number of problems. For example, inaccurate data and duplicate numbers can result in benefits being paid to ineligible clients or in the wrong amounts. It can also mean that clients are abusing the program by applying for benefits at more than one district office. It also means that expenditures are being misclassified in the Province's public accounts and that the Department's summary program delivery information is incorrect.

Many of the data inaccuracies described above are undoubtedly nothing more than recording errors. However, audit examination of a small sample of errors revealed two instances where it appears that abuse may have occurred. These instances are being investigated by the Department.

There is considerable scope for using computer data verification procedures for detecting many of these data inaccuracies. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 33

It is recommended that the Department of Social Services improve the computer verification procedures, and thereby the accuracy of the data, in the system it uses to administer the Social Allowance and Alberta Assured Income for the Severely Handicapped Programs.

Recoveries — From time to time, clients claim and receive excessive benefits. When these situations are detected by the Department, it calculates the amount overpaid and attempts to recover it by monthly repayments. At July 31, 1987, however, there were 1,378 cases of overpayments totalling almost $440,000 for which repayment schedules had not been set up.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department avoid delays in recovering overpaid benefits under the Social Allowance and Alberta Assured Income for the Severely Handicapped Programs.

Child Care Programs

There are deficiencies in the procedures used by the Department to license, monitor and process payments to children's day care facilities.

Day care centre licensing — Stricter standards are needed for assessing the qualifications of senior administrators of licensed children's day care centres.

The Social Care Facilities Licensing Act and the Department's policy manual require day care centres, family day homes and foster homes to provide "proper care." This includes safeguarding the health and well-being of the children, and avoiding putting them "at risk."

As a pre-condition to issuing and renewing licenses, the premises and programs of all child care facilities are inspected and assessed. In addition, operators of family day homes are screened for any history of criminal convictions involving child abuse or neglect, diagnosed mental illness, or evidence of drug addiction or alcoholism. Foster home parents are similarly screened to assess whether they have the motivation, attitude, values and skills to be substitute parents. However, senior administrators of day care centres are not similarly screened, nor are assessments made of their abilities to implement the proposed programs.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 34

It is recommended that the Department of Social Services apply standards similar to those used for the Child Welfare and Family Day Care Programs to screen senior administrators of day care centres before issuing children's day care centre licenses.

Day care centre monitoring — The Department needs better ways of determining whether day care centres are providing the programs they are licensed to provide, and of checking that observed deficiencies in the programs are eliminated.

The regulations require day care centres to provide developmental programs to meet the needs of children in their care. The programs are approved before licenses are issued or renewed. Thereafter, regional licensing officers monitor periodically whether the approved programs are being provided to required standards.

The Department has provided a checklist of duties etc., for regional licensing officers to use when monitoring the activities of day care centres. The checklist, however, is proving difficult to implement with the result that monitoring is inconsistent or, in some respects, absent. For example, Edmonton Region licensing officers do not complete the part of the checklist that deals with developmental needs because the Region believes they need special training to do so. Calgary Region licensing officers complete the whole checklist, but the Region believes that officers require further training to be capable of completing the checklists properly.

The Department's treatment of the program deficiencies observed by licensing officers is similarly inconsistent. For example, in the Calgary Region they are reviewed and used to set remedial goals and license renewal conditions. In the Edmonton Region, however, this is not done, and there is no system for ensuring that observed deficiencies are followed up and taken into account when license renewals are considered.

It is acknowledged that the Department is currently designing a new computer-based Day Care Information System which, it appears, will address some of the above concerns. Pending its completion and implementation, I made the following recommendation in a management letter to the Deputy Minister at the conclusion of the audit:

Recommendation No. 35

It is recommended that the Department of Social Services improve its procedures for monitoring the adequacy of programs provided by children's day care centres to meet the developmental needs of children, and for following up and eliminating observed deficiencies in the programs.

Child care funding claims — The Department needs to strengthen the procedures it uses for checking the accuracy of information used to calculate the funding provided to licensed child care facilities.

The Department pays annually approximately $31 million in operating allowances and $26 million in family subsidies to child care facility operators. The Department checks the claims for clerical accuracy, license or contract status, and subsidy payment authority. It does not, however, take adequate steps to verify that attendance information, the children's names, the facility staff names, and the hours worked are correctly reported. This information must be accurate as it forms the basis for calculating the amount of entitlement.

In 1987, the Department investigated a selection of funding claims and found that many contained errors that had resulted in overfunding. The Department has commenced developing a new Day Care Information System which, it believes, will improve its ability to detect errors. However, the Department will also need to improve its procedures for identifying overpayments during day care centre visits, and for following up problems observed to see whether remedial action has been taken.

When Departmental staff visit day care centres and determine that the required staff-to-child ratios have not been met, penalties are levied. These penalties are calculated on the assumption that the improper ratio occurred only on the day of the visit. No attempt is made to examine attendance and staff records to see if the situation was ongoing and whether the penalty should cover a longer period of time.

When the Department discovers that parents have claimed subsidies to which they are not entitled, it ensures that future subsidies are disallowed, but makes no efforts to recover the overpayments from the day care centre or the parent.

The situations referred to above suggest that the Department may be overfunding child care facility operators. Accordingly, it should consider seeking to recover subsidy overpayments, determining the extent of overfunding caused by incorrectly reported staff-to-child ratios, and strengthening its procedures for detecting and dealing with operators who submit irregular claims.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 36

It is recommended that the Department of Social Services strengthen its procedures for verifying that the information used to calculate funding for children's care facilities is accurate.

Vocational Rehabilitation of Disabled Persons Claims

Under the Vocational Rehabilitation of Disabled Persons Agreement, certain expenditures are cost-shared with the Government of Canada. Vocational rehabilitation is provided by the Alberta Hospitals Edmonton and Ponoka, the Alberta Alcohol and Drug Abuse Commission, the Department of Advanced Education, the Department of Community and Occupational Health, and the Department of Social Services.

The Agreement requires annual cost-sharing claims to be audited. As the Department of Social Services co-ordinates the preparation of the claims, and accounts for the revenues therefrom, observations arising from claim audits are included in this section.

Audited financial statements of agencies — The departments and agencies that administer these programs are required to obtain assurance that the agencies they fund use the money for approved purposes. To this end, the Department of Social Services requires audited annual financial statements from agencies that receive annual funding in excess of $50,000. However, eleven of the 78 agency files selected for examination during the audit did not contain audited financial statements.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department ensure that the agencies it funds submit audited financial statements as required by Departmental policy. These statements should be examined by the Department for compliance with funding conditions.

Filing supporting documentation — Documentary evidence was not always available to support cost-sharing claims. In addition, the Revenue Administration Branch and the Vocational Rehabilitation Programs Branch did not have all approvals issued by the Government of Canada.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department maintain proper documentation from the Government of Canada approving sharable expenditures and to support all amounts claimed.

Observations from Financial Audit Work

Child Welfare Program and Information System — There is still scope for improving the usefulness of the Department's Child Welfare Information System (CWIS) and for closer monitoring for compliance with legislative authorities and Departmental policies.

In my 1986-87 annual report (section 2.23.1), I recommended that the Department make CWIS more effective by improving its speed, making it more user-friendly and taking steps to ensure that the information it captures is reliable. I also recommended that the Department upgrade CWIS so that it can provide more complete information on the extent to which Child Welfare Program expectations are being achieved.

The Department has initiated a CWIS redevelopment project to address problems in the current system. As the problems with CWIS are not yet resolved, I made the following recommendation in a management letter to the Deputy Minister of Social Services at the conclusion of the 1987-88 audit:

Recommendation No. 37

It is recommended that the Department of Social Services make the Child Welfare Information System more effective by improving its speed, making it more user-friendly, taking steps to ensure that the information it captures is more reliable, and upgrading the system so that it can provide more complete information on the extent to which Child Welfare Program expectations are being achieved.

In my 1986-87 annual report, I also recommended that the Department's monitoring of the services provided under the Child Welfare Program be performed by people who are independent of those who provide the services.

The Department is now implementing a new monitoring and quality assurance system which, it appears, will address the above concern. In a management letter to the Deputy Minister at

the conclusion of the audit it was recommended that, pending the system's implementation, the Department should ensure that services provided under the Child Welfare Program are monitored by people who are independent of those who provide the services. The operation of the new system will be examined during future audits.

In my 1986-87 annual report (section 2.23.1), I also recommended that the Department upgrade CWIS to include information on financial aspects of the system.

I am pleased to report that the Department has since improved the financial component of CWIS to enable it to analyze costs incurred by the Child Welfare Program. These improvements satisfactorily resolve my previously reported concern.

2.24 SOLICITOR GENERAL

Of the matters reported to management at the conclusion of the Department's audits, none warrant inclusion in this report.

2.24.1 **Department of the Solicitor General** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the systems of financial and internal control at the Peace River Correctional Institution.

— An examination of the procedures used by the Department to control and account for national parole funding received from the Government of Canada.

— An examination of the procedures used by the Department to accumulate statistics to support the annual claim under the Young Offenders cost-sharing agreement with the Government of Canada.

— An audit of the Province's 1987-88 claim for cost-sharing under the Native Courtworker Program pursuant to an agreement with the Government of Canada.

2.24.2 **Alberta Liquor Control Board** — year ended January 5, 1988

The annual financial audit was extended to include an examination of the procedures used by the Board to ensure compliance with the regulations governing the issue of liquor licenses, and for monitoring compliance with the terms of such licenses.

2.24.3 Financial audits of the **Alberta Racing Commission** and the **Motor Vehicle Accident Claims Fund** were also completed for the year ended March 31, 1988.

2.25 TECHNOLOGY, RESEARCH AND TELECOMMUNICATIONS

Of the matters reported to management, the following observations and recommendations were selected for inclusion in this report.

2.25.1 **Department of Technology, Research and Telecommunications** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the procedures used by the Department to help co-ordinate government programs which promote advanced technology.

— An examination of the information systems and procedures used to support Departmental funding decisions.

— An examination of the Department's controls over the completeness and accuracy of data input to the Province's central (DFS/CFS) financial accounting and reporting system.

Observations from Extended Audit Work

Science and Technology — The Department is developing information systems to service a policy that has not been formally approved.

The Department of Technology, Research and Telecommunications Act requires the Minister to co-ordinate Government initiatives that promote advanced technology as a means of diversification. Co-ordination is necessary because of the many programs delivered by otherwise unrelated Government organizations which can affect the success of initiatives. The co-ordinating role is the means by which the Minister provides central direction and accountability.

In November 1987, the Minister set up the Technology and Research Advisory Committee (TRAC) to assist in carrying out the co-ordinating role. In conjunction with the Department, TRAC has been developing a draft Science and Technology Policy to provide authoritative guidance. The draft policy is being designed to ensure that all necessary programs are in place, that wasteful duplication is avoided, and that funding decisions are influenced by the extent to which program benefits contribute to the success of initiatives.

Based on the most recent draft of the Science and Technology Policy, TRAC has begun designing the information systems it will need. However, until a policy is finalized and approved, TRAC cannot be sure that the systems it is designing will satisfy its information needs.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department give priority to finalizing and obtaining approval for a science and technology policy so that its information and system needs can be determined.

Assessment of funding applications — There is scope for improving the contents and supporting information for the Department's financial, technical and commercial divisions' assessment reports on funding applications.

The Department provides funding, in the form of grants, loans and equity participations, for the development and commercialization of new technology. Funding provided during 1987-88 amounted to approximately $29 million. Funding applications are reviewed by the Department's financial, technical and commercial divisions which prepare assessment reports on the feasibility of the proposals. These reports are reviewed by the Department's Management Committee and, for funding exceeding $250,000, by TRAC. These committees then make recommendations to the Minister on the advisability of providing the funding.

The audit revealed that assessment reports do not always provide the information needed to support funding decisions. Often, they do not show what evidence has been obtained to corroborate the applicants' assertions, or to identify situations where assertions have not been verified.

Each of the three divisions uses the same criteria to assess funding applications. However, there are no standards governing the preparation of assessment reports. It appears, for example, that

the amount of work done by assessors in the commercial division varies considerably, and that there is duplication in some of the work done by the technical and commercial divisions.

If the Management Committee prescribed the minimum contents of assessment reports, and set standards for verifying the information they contain, it could be more confident that its funding decisions are based on reliable information.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 38

It is recommended that the Management Committee of the Department of Technology, Research and Telecommunications specify the kind of information that the financial, technical and commercial divisions' assessment reports should contain. It should also specify the nature and extent of the assurance that should be obtained by the divisions when assessing project funding applications.

2.25.2 **The Alberta Educational Communications Corporation** — year ended March 31, 1988

Observation from Financial Audit Work

My report on the Corporation's 1987-88 financial statements contains a reservation of opinion because, as explained in section 3.2.2 of this report, the Corporation receives membership contributions which are not susceptible of audit verification.

2.25.3 **The Alberta Government Telephones Commission** — year ended December 31, 1987

The annual financial audit of the Commission was extended to include the following:

— An examination of the systems and procedures used by the Commission to control the acquisition and use of microcomputers.

— An examination of the systems and procedures used by the Commission to ensure the proper use of electronic signatures and approvals.

— An examination of the systems and procedures used by the Commission to control the transfer of costs of resources among its divisions.

— Financial audits of the Commission's wholly-owned subsidiary companies:

Alta Telecom International Ltd.
Alta Telecom, Inc.
Alta Telecom Licensing Corporation
Alta-Can Telecom Inc.
288922 Alberta Ltd.

— Audits of 'Schedules of Building Operating Costs' for the year ended December 31,1987 for distribution to tenants who lease space in the Commission's buildings.

Observations from Extended Audit Work

Microcomputers — There are serious deficiencies in the systems and procedures used by the Commission to acquire, allocate and control microcomputers.

The major deficiencies are as follows:

— Cost justification procedures for the acquisition of microcomputers are not formalized. As a result, some acquisitions are not properly justified. In other cases, the justification procedures are not applied consistently.

— For most acquisitions, no post implementation reviews are conducted to determine whether expected benefits have been realized. The reviews that are conducted are neither consistent nor timely.

— There is no system to identify, monitor and report on the overall benefit the Commission receives from using microcomputers.

— Budgets for the acquisition of microcomputers are based on historic trends, rather than on current and future needs.

— Microcomputers are allocated on a first-come first-served basis, instead of on the basis of need.

— There is no system of inventory control over microcomputer hardware and software.

The Commission is committed to the extensive use of microcomputers in the present and foreseeable future. Next year's budget for the acquisition of microcomputer hardware, software and maintenance is considerably more than the cost of a major stand-alone computer. This level of cost is expected to continue in future years. For these reasons, it is important that the Commission has adequate controls over the acquisition and allocation of microcomputers.

In a management letter to the President of the Commission issued at the conclusion of the audit, I made several recommendations to address the deficiencies noted above. In addition I made the following overall recommendation:

Recommendation No. 39

It is recommended that the Alberta Government Telephones Commission review the procedures used to acquire, allocate and control microcomputers and take appropriate action to correct the deficiencies in the procedures.

Electronic authorizations — There are serious deficiencies in the procedures used by the Commission to create, send and authorize documents, electronically.

The major deficiencies are as follows:

— Security over electronically-created documents is weak and does not protect against unauthorized access. As a result, unauthorized people can gain access to confidential documents. Also, authorized documents may be altered or destroyed.

— There are no policies and procedures to guide staff as to when electronic, rather than manual, signatures are appropriate. Electronic signatures are personalized codes entered at a computer terminal to approve documents or transactions.

— The trails to enable electronic documents to be accessed by Management or audit staff, if required, are not adequate.

The Commission is using an electronic communication system to generate certain notes and documents. Almost 5,000 staff currently use the system and its use is expected to continue to grow. As well, the Commission is considering using systems to exchange electronic documents with external entities.

Confidential documents are being created, transmitted and stored on the present system. In addition, the system is being used to authorize transactions which have a financial impact on the Commission, especially in the area of payroll. The integrity and confidentiality of this type of information depends on the effectiveness of the system's controls. As stated above, however, there are serious deficiencies in the controls exercised over this system.

In a management letter to the President of the Commission at the conclusion of the audit, I made recommendations to address the deficiencies observed in this system. As well, I made the following overall recommendation:

Recommendation No. 40

It is recommended that the Alberta Government Telephones Commission review the controls over the system of electronic authorizations and take appropriate action to correct the deficiencies in the system.

Cost allocation policy — The Commission has not developed a comprehensive policy for allocating the cost of centralized services provided to decentralized divisions.

Following the 1987 audit, the Commission agreed that cost allocation is a corporate concern. It further agreed to develop a policy during the next year. During the current examination it was observed that little progress had been made in developing and implementing a cost allocation policy.

A comprehensive cost allocation policy would allow the Commission to measure more accurately the efficiency and accountability of the decentralized divisions and to make better use of scarce resources.

In the management letter to the President at the conclusion of the audit, it was recommended that the Commission develop a comprehensive cost allocation policy.

Observations from Financial Audit Work

Outside plant assets — There is reason to believe that the value of the Commission's outside plant assets might be significantly understated in its accounting records.

Outside plant assets are cable, poles and underground conduits used to connect exchanges for the transmission of local and long-distance calls. At December 1987, the gross value of the Commission's outside plant was approximately $870 million.

Audit procedures carried out at two of the Commission's exchanges confirmed that location recording for outside plant is accurate. They indicated, however, that the recorded values might be significantly understated. This potential understatement was confirmed by Commission staff on the basis of a small sample of assets reviewed. However, a larger sample of assets will need to be examined to determine the size of any adjustment that might be needed to the accounting records and financial statements.

In a management letter to the Commission's President at the conclusion of the audit, it was recommended that the review of the values of outside plant assets be expanded, without delay, to cover a representative sample from all exchanges. It was also recommended that the reasons for any discrepancies found be a basis for corrective action, and for setting up procedures to reduce the risk of the problem recurring.

Out-of-Province sales — In my 1986-87 annual report (section 2.25.1), I expressed concern about the way the Commission was selling and accounting for goods and services to other parts of Canada. Firstly, the Commission's governing legislation allows it to conduct business only within the Province of Alberta. Secondly, the sales were not being accounted for in accordance with generally accepted accounting principles. Thirdly, full financial information on the sales was not being made available to the Commission for accounting and management review purposes.

The Commission has commenced handling out-of-Province sales through its subsidiary, Alta Telecom International Ltd. I am also pleased to report that procedures are being established to ensure that the Commission receives the accounting information needed for control purposes, and to enable the sales to be accounted for in accordance with generally accepted accounting principles.

Electronic data processing systems and facilities — In my previous report (section 2.25.1), I commented on deficiencies in systems and procedures associated with the Commission's electronic data processing operations and facilities. I was concerned with the lack of an EDP disaster recovery plan, the absence of required systems and program documentation, and the rate of integration of computerized data.

Concerns of this nature cannot be resolved in one year. I am pleased to report that the Commission is taking appropriate action to correct deficiencies and I am satisfied with the progress made to date. Progress will be monitored during future audits.

Various previously reported matters — In my previous report (section 2.25.1), I commented that:

— there was a need to continue to improve the procedures used to reconcile station equipment records with engineering records and billing records,

— there was a possibility that a significant difference exists between actual assets located at central offices and the Commission's financial records, and

— Alta Telecom International Ltd. and Alta Telecom, Inc. were encountering difficulties in maintaining their financial and management control systems due to their rapid growth.

Current audits revealed that these concerns have been satisfactorily dealt with. The Commission has improved significantly its reconciliation procedures for station equipment. A physical count of assets carried out by the Commission at large central offices did not disclose any significant differences and audits of the two subsidiary companies revealed that, overall, both have made good progress in improving control.

2.25.4 **Alberta Research Council** — year ended March 31, 1988

Observation from Financial Audit Work

In previous annual reports to the Legislative Assembly, I commented on numerous weaknesses in the Council's accounting and internal control systems. I also acknowledged the progress made by the Council in eliminating them. In my 1986-87 report (section 2.25.2), I reported that two such concerns remained unresolved.

One concern was with continuing inadequacies in the control exercised over the custody and use of materials and supplies inventories. I am pleased to report that control procedures have since been implemented which effectively eliminate this concern.

The other concern related to uncertainties as to the ownership of some of the fixed assets recorded on the Council's balance sheet. This problem arose because many research projects carried out over the years allowed the Council to retain fixed assets acquired for the projects, though under varying conditions. For example, under some contracts, title to such assets passed to the Council on completion of the project; under others, passing of title was at the discretion of the project sponsor. The Council had not kept records of the status of many of these assets.

Because of these uncertainties as to ownership, reservations of opinion had been included in the auditor's reports on the Council's financial statements for 1986-87 and the previous seven fiscal years.

I am pleased to report that this long-standing matter was resolved during 1987-88. The Council was able to eliminate substantially all uncertainties as to ownership of these assets and, as a result, I was able to report without reservation on the Council's 1987-88 financial statements.

2.25.5 Financial audits of the following were also completed:

Alberta Heritage Foundation for Medical Research — year ended March 31, 1988
The Alberta Government Telephones Employees' Group Life Insurance Trust Account — year ended December 31, 1987
The Alberta Government Telephones Employees' Pension and Death Benefit Fund — year ended December 31, 1987
The Alta Telecom International Employees' Group Life Insurance Trust Account — year ended December 31, 1987
The Alta Telecom International Employees' Pension and Death Benefit Fund — year ended December 31, 1987

2.26 TOURISM

Of the matters reported to management at the conclusion of the Department's audit, none warrant inclusion in this report.

2.26.1 A financial audit of the **Department of Tourism** was completed for the year ended March 31, 1988.

2.27 TRANSPORTATION AND UTILITIES

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.27.1 **Department of Transportation and Utilities** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the systems and procedures used by the Department to monitor compliance, by contractors and truckers, with certain conditions contained in highway construction contracts.

— An examination of the financial controls exercised by the Department over revenue arising under cost-sharing agreements.

— An examination of the systems used by the Department to assign priorities to capital construction projects and to monitor the scope and cost of the capital construction projects that it manages.

Observations from Extended Audit Work

Highway construction contracts — The Department has traditionally attempted to promote the viability of the Alberta trucking industry. To this end, it includes conditions in its highway construction contracts which require:

— contractors to pay truckers a minimum production haul rate,

— contractors to hire half of the truckers on a contract, where possible, from within an area specified in the contract,

— truckers not to provide more than three trucks on a contract,

— contractors not to use truck brokers to hire truckers, and

— contractors not to charge truckers for supervising and administering their activities.

The Department is finding it difficult to check whether contract conditions are being adhered to. It cannot tell whether contractors submit low bids on government contracts, anticipating being able to persuade truckers to accept lower rates than the contracts prescribe. Similarly, it cannot tell whether truckers accept lower rates just to get the work or to maintain good standing with successful contractors. Some truckers may be circumventing contractual conditions by maintaining several mailing addresses around the Province, and setting up separate companies if they own more than three trucks. In addition, if both contractor and trucker are willing to circumvent the Department's conditions, there is little chance of detecting it.

The Department has taken a number of steps to ensure that truckers know the conditions of the contracts under which they subcontract. For example, it requires the conditions that affect truckers to be posted on construction sites. The Department has also established a procedure whereby it formally investigates complaints by truckers arising out of government contracts. Truckers have until 90 days following the provision of the subcontracted services to submit a complaint or claim for investigation, and the Department withholds a portion of the contract proceeds pending settlement.

The Department investigates complaints promptly, and attempts to settle claims as quickly as possible. Despite the Department's efforts, however, several concerns remain. For example, some contractors who adhere to the contractual requirements put themselves at a disadvantage because other contractors, anticipating paying lower haul rates, can under-bid them on Department contracts. Furthermore, the benefits of the Department's efforts to help the trucking industry are distributed unevenly. The benefits are received only by truckers who work on government contracts.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Recommendation No. 41

It is recommended that the Department of Transportation and Utilities analyze the costs and benefits of its existing truck haul contract conditions and compare them with alternative strategies for assisting the Province's trucking industry.

Cost-sharing revenue — The Department needs better procedures for ensuring that its cost-sharing claims are properly prepared and promptly submitted.

The Department cost-shares road construction and similar projects with other levels of government and, occasionally, with adjacent provinces. Costs incurred on these projects are accumulated in the Department's construction branches, which also initiate and prepare the cost-sharing claims. The claims are then forwarded to the Department's Finance Division for billing and collection. Until it receives a claim from a construction branch, the Finance Division may be unaware that a billing is due, or even that a cost-sharing agreement exists.

There are several disadvantages inherent in this system. For example, the Finance Division does not always code expenditures as being cost-sharable or check that claims are accurately prepared. In addition, it cannot ensure that claims are submitted promptly and that revenues therefrom are reported in the public accounts in the correct years. In other words, the division that is responsible for controlling the Department's revenues and expenditures is not in a position to exercise proper control in this area.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department's Finance Division be notified of all cost-sharing agreements entered into by the Department and play a major role in processing claims.

Reporting construction activities — The Department is implementing a new highway programming process which, when operational, will improve its system for assigning priorities to highway construction. There is still scope, however, for improving accountability reporting for the annual construction program and major multi-year projects.

Each year, the Department tables in the Legislative Assembly a report on the work done and money spent on highway construction. These reports, however, do not give details of the work that was planned and for which the money was appropriated. Furthermore, there is no internal report that provides this summary information.

The form and content of the Department's reports on major multi-year projects do not always provide information on changes made to the scope of projects. Accordingly, it is often difficult to determine from the reports how accurately projects were budgeted, how well costs were kept in line with budgets, and whether budget variances were caused by scope amendments.

These reporting deficiencies weaken both the internal and external accountability processes. Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department include in its reports on major multi-year construction projects details of the work planned and completed, and the effects of project scope changes. It was also recommended that, for all highway activities, the Department prepare annual reports which include comparisons of the planned scope and cost of the program, with work completed and actual costs, plus reasons for significant variances.

2.27.2 **Transportation Revolving Fund** — year ended March 31, 1988

Observation from Financial Audit Work

The Department continues to lack adequate controls for ensuring that gravel usage is accounted for and charged to the Department's projects in the correct fiscal periods.

The Revolving Fund acquires and stores the gravel used by the Department to maintain and construct roads. Inventories of gravel stock-piled around the Province have a value of approximately $13 million.

In my 1986-87 annual report (section 2.27.3), I reported on inadequacies in the control exercised over gravel inventories. The district offices that maintain the gravel piles were not reporting consistently or promptly to the Revolving Fund on the timing and volumes of gravel used. In addition, the records maintained at district offices could not be used to exercise proper physical or financial control over the gravel piles.

Among the implications of these control weaknesses are that, at any point in time, the Revolving Fund's gravel inventories may be overstated, and its accounts receivable and project costs may be understated. When a district office reports to the Revolving Fund that a gravel pile is exhausted, the accounting entries are corrected. This, however, may be well after the event and result in project costs being accounted for in the wrong fiscal year.

At the conclusion of the 1986-87 audit, I recommended that the Department review the procedures for recording and controlling gravel at district offices, and design them to ensure that gravel used is charged to projects promptly.

The 1987-88 audit revealed little change in the situation described above. Management agreed to change the caption 'gravel inventory' to 'deferred gravel cost' on the Revolving Fund's balance

sheet in an effort to describe better the nature of the asset. This change, however, does not cure the problem of delayed recording of project costs, or the control weaknesses at district offices.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department require its district offices to measure and record gravel removed from stockpiles belonging to the Transportation Revolving Fund. Procedures should then be established to ensure that the cost of gravel removed is charged to the Department's projects promptly.

2.27.3 **Rural Electrification Revolving Fund** — year ended March 31, 1988

Observation from Financial Audit Work

In my 1986-87 annual report (section 2.27.4), I noted that the Fund's reported assets included loans totalling almost $25.9 million advanced under Part 2 of the Rural Electrification Revolving Fund Act. I explained that these advances are accounted for as loans because they are so designated by the legislation, but that they are only repayable in certain circumstances or if certain events occur. Accordingly, it can be argued that these advances may in substance be conditional grant payments which should not be treated as assets of the Fund.

I recommended that the Department liaise with the Treasury Department to decide on the nature and ultimate collectability of these loans.

The Department has since held discussions with the Treasury Department. It has been recognized that the advances are unlikely to be repaid and an allowance for non-repayment has been set up in the financial statements of the General Revenue Fund. Discussions are ongoing to decide on the most appropriate way of disclosing the advances in the financial statements of the Rural Electrification Revolving Fund.

The outcome of these discussions will be reviewed during the next audit.

2.27.4 Financial audits of the following were also completed:

Alberta Electric Energy Marketing Agency — year ended March 31, 1988
Alberta Resources Railway Corporation — year ended December 31, 1987
Gas Alberta Operating Fund — year ended March 31, 1988
Natural Gas Rebates Fund — year ended March 31, 1988

2.28 TREASURY

Of the matters reported to management, the observations and recommendations below were selected for inclusion in this report.

2.28.1 **General Revenue Fund** — year ended March 31, 1988

The financial statements of the General Revenue Fund report the revenues and expenditures of the twenty-five government departments and the four Legislative Offices, together with the financial assets and liabilities they administer.

Audit activities undertaken for each department and Legislative Office are reported in sections 2.3 to 2.28.

2.28.2 **Treasury Department** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the financial information contained in several prospectuses issued by the Province of Alberta for international borrowing purposes.

— An examination of the system and procedures used by the Department's Loans and Guarantees Division and the Office of the Controller to control and report the Province's contingent liabilities, guarantees and indemnities.

— An examination of the systems and procedures used by the Department to collect and account for hotel room tax.

— An examination of the systems and procedures used by the Department's Corporate Tax Administration Division to ensure that corporate entities operating in Alberta are on the Province's tax roll and to control the collection and recording of corporate income taxes.

— Audits of more than one hundred claims under the Canada-Alberta subsidiary agreement on agricultural processing and marketing, for cost-sharing nutritive processing expenditures.

— An examination of an extended sample of contract services expenditures borne by the Province's General Revenue Fund during 1987-88.

— An examination of the systems and controls used by the Department's Budget Bureau in the General Revenue Fund's budgetary process.

— An examination of the procedures used to generate and provide to the independent actuary the information used to calculate future obligations of the pension plans administered by the Province and which are reported in the Province's financial statements.

— An examination of the procedures used by the Department's Pensions Administration Division, after the end of each calender year, to reconcile the contributions received from employers with the accounts of individual members of the plans.

— An examination of the procedures used by the Department's Pensions Administration Division to calculate amounts (including pensions) payable to individuals who retire or otherwise withdraw from pension plans.

— An examination of the procedures used by the Department's Pensions Administration Division to ensure that monthly pension payments cease when pensioners die or withdraw from pension plans.

Observations from Extended Audit Work

Long-term disability costs — The Province does not account for year- end liabilities for future benefits payable under its Long-term Disability Benefit Plans. Accordingly, the full costs of the Plans are not being recorded in the public accounts of the Province.

Not recording these liabilities is contrary to the general reporting principles and standards for the disclosure of information in government financial statements issued by the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants in November 1986. PSAAC states that financial statements should include information on payables and accrued liabilities including "amounts owing for the cost of goods and services acquired such as accrued employee benefits".

The Plans' Adjudicator, the Great West Life Assurance Company, estimated that the liability for employees receiving benefits under the plans at March 31, 1988 was approximately $41 million.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, I made the following recommendation:

Recommendation No. 42

> **It is recommended that the Treasury Department record the full costs of the Long-term Disability Benefit Plans in the financial statements of the General Revenue Fund of the Province. This should include the liability for the future amounts payable to employees already receiving benefits under the Plans.**

Most employees are not receiving disability benefits but are eligible for benefits should a disability occur. Their eligibility arises from their terms of employment. Therefore, it can be argued that the annual cost of remunerating these employees should include an estimate of the value to the employee (or the corresponding cost to the employer) of the disability coverage in place. Attributing the projected overall future cost of the Plans to the periods of employee service would require technical assistance from an actuary. In a management letter to the Deputy Provincial Treasurer, Management and Control, it was recommended that the Treasury Department formulate a policy for accounting for the long-term disability costs associated with employees who may qualify for benefits in the future.

Observations from Financial Audit Work

Government Employees' Group Extended Medical Benefits Plan Trust and Government of Alberta Dental Plan Trust

I have obtained an independent legal opinion that the above two Trusts are not validly constituted. It follows, therefore, that the income they receive and the expenditures they make lack proper legislative authority. Furthermore, expenditures from the Trusts should be, but are not, subject to the Government's pre-disbursement control procedures and annual lapsing provisions. Whether validly constituted or not, however, the Trusts contain public money and are therefore regulated funds. This being so, the Auditor General of Alberta is automatically the auditor of the Trusts.

The Dental Plan Trust was established in 1981 and the Medical Benefits Trust was established in 1988. The trustees of both Trusts are public officials and the terms of the Plans are controlled by the Province. Both Trusts are employee benefit plans and are partially funded by employer contributions.

The Dental Plan Trust receives monies from the Province's General Revenue Fund to cover the basic dental benefits provided to all qualifying employees. It also receives contributions, through payroll deductions, from employees who have elected to have extended dental coverage. The Plan has entered into an administrative agreement with Mutual Life of Canada under which Mutual Life assesses and pays dental claims under the Plan and bills the Trust for claims paid, plus an administrative fee.

The Medical Benefits Trust also receives monies from the General Revenue Fund to cover employer contributions, plus employee payroll deduction contributions from employees who elect to receive this benefit. This Plan has entered into an administrative agreement with Alberta Blue Cross Plan under which Blue Cross assesses and pays claims for extended medical benefits and bills the Trust for claims paid, plus an administrative fee.

Since its inception in 1981, the Dental Plan Trust has been audited by auditors appointed by the Trustees, and the secretary of the Medical Benefits Trust has requested tenders for the audit of that Trust.

I have reason to believe that there are other trust funds administered by the Province which, because they lack statutory authority, are invalidly constituted. This concern has been communicated to the Deputy Provincial Treasurer, Management and Control and, accordingly, I make the following recommendation:

Recommendation No. 43

It is recommended that the Treasury Department seek to obtain legislation to constitute legally the Government of Alberta Dental Plan Trust, the Government Employees' Group Extended Medical Benefits Plan Trust and any other trust funds that have the same legislative disability.

Payment and general ledger accounting system (DFS/CFS) — In my 1986-87 annual report (subsection 2.28.2), I recommended that the Treasury Department initiate a post implementation review of the DFS/CFS by persons independent of the systems' development and before any significant revision to the system.

A post implementation review of a new system is required by government policy and includes an accounting for the funds expended and the documenting of progress in achieving the anticipated benefits to be derived from the development and implementation of the system.

A post implementation review has not yet been performed. I understand, however, that the Treasury Department is taking action to have a review performed. Accordingly, I will review the action taken during the next audit.

Fuel tax — Revenue from fuel tax was not accounted for in accordance with the accounting policies of the General Revenue Fund, which resulted in an understatement of revenue of $24.7 million for the year ended March 31, 1988.

June 1, 1987 was the effective date whereon consumers, with some exceptions, were required by legislation to pay a tax of five cents a litre on fuel oil purchased in Alberta. For administrative purposes, the Department decided to collect this tax from oil companies (collectors) based upon deliveries to retailers and bulk dealers. The tax is due from collectors on the 28th day of the month following the month of delivery. The tax collection procedure is based on the concept that deliveries of fuel oil in any month should approximate the taxable sales in that month. Under this approach the tax due to the Provincial Treasurer for March 1988 deliveries was not due until April 28, 1988 and, therefore, according to General Revenue Fund accounting policies should have been recorded as a receivable at March 31, 1988. The March tax was not, however, treated as receivable.

In a management letter addressed to both Deputy Provincial Treasurers, I made the following recommendation:

Recommendation No. 44

It is recommended that in future the Treasury Department treat as receivable at March 31, the fuel tax on all fuel oil deliveries made in March to retailers and bulk dealers.

Tax expenditures — Tax expenditures are tax revenues foregone as a result of tax law provisions that allow special exemptions or deductions from gross income or provide special credits, reduced tax rates or deferrals. In other words, tax expenditures are costs which show up by way of reduced revenues. In Alberta, tax expenditures also include costs to the Province deducted from royalty revenue.

Using tax expenditures as a means of delivering program benefits is often expedient and efficient. However, tax expenditures can distort reported revenues and expenditures. Also, tax expenditures

weaken the control exercised over expenditures. They do not undergo the same rigorous legislative review process as is applied to normal budgetary expenditures.

Because tax expenditures distort reported figures and weaken legislative and administrative control, this report has recommended for several years that the Treasury Department treat tax expenditures in the same manner as normal government expenditures for both budgeting and financial reporting purposes.

In reply to this recommendation, the Government has taken the position that tax expenditures relate to the generation of tax (and royalty) revenue and, therefore, should be deducted from that revenue. Also, the Government argues that tax expenditures are disclosed in accordance with legislation. This position does not directly address my concern for improved reporting and improved legislative control.

In view of the Government's position, I have concluded that at this time there is no benefit in repeating my recommendation in a way that seeks a formal response. I will continue to monitor debate and research across Canada on the subject of tax expenditures.

2.28.3 **Alberta Heritage Savings Trust Fund** - year ended March 31, 1988

Observations from Financial Audit Work

The Auditor's Report on the financial statements of the Heritage Fund for the year ended March 31, 1988 was qualified.

The reason for the reservation of opinion is set out in the Auditor's Report and is as follows:

"The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate nor is the presentation in accordance with generally accepted accounting principles. Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations. Although it has been interpreted by management that the Alberta Heritage Savings Trust Fund Act requires the disclosure of deemed assets on the balance sheet, the financial position of the Fund would be better understood if the deemed assets and deemed equity represented by deemed assets which both amount to $2,758,363,000 were not included."

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue, it was recommended that deemed assets and deemed equity represented by deemed assets be removed from the balance sheet of the Fund. It will be necessary to continue to qualify the Auditor's Report until this matter is resolved satisfactorily.

2.28.4 **Farm Credit Stability Fund** — year ended March 31, 1988
Small Business Term Assistance Fund — year ended March 31, 1988

Observations from Financial Audit Work

Agreements with lending institutions — In August, 1986, programs were established pursuant to the Farm Credit Stability Fund Act and the Small Business Term Assistance Fund Act to provide loans to eligible borrowers in the Province. The loans are made and administered by lending institutions. The Funds maintain amounts on deposit in the lending institutions equal to the amount of the loans provided under the programs. The lending institutions receive fees from the Funds for their participation in the programs.

The lending institutions have been administering the programs since their inception based on letter agreements between them and the Province dealing with their arrangements in the interim period

leading to the execution of formal agreements. These interim letter agreements require the Province and each lending institution to negotiate and execute a formal agreement dealing with matters applicable to the programs.

At the conclusion of the audits of the Funds, the formal agreements had not been executed with all institutions. Agreements under the Farm Credit Stability Fund Act had been finalized and forwarded to the lending institutions for execution but only one had been executed. Agreements under the Small Business Term Assistance Fund Act were still being negotiated and none had been executed.

Accordingly, in management letters to the Deputy Provincial Treasurer, Finance and Revenue, at the conclusion of the audits of the two Funds, it was recommended that efforts to finalize and obtain executed formal agreements from all lending institutions continue to be assigned a high level of priority.

Implemented guarantee payments — During the year ended March 31, 1988, payments amounting to $111,360 were made out of the General Revenue Fund and reported as implemented guarantees under the Small Business Term Assistance Fund Act. Under that Act and its regulations, the power of the Provincial Treasurer to make a guarantee was made subject to the regulations and to any agreement between the Provincial Treasurer and a lending institution, including an interim agreement. The interim agreement in turn contemplated a further formal agreement between the parties providing for, among other things, the terms of the Province's guarantee of the loans. The payments of $111,360 in the absence of the formal agreements raises serious questions as to whether the payments lacked legislative authority. In any event, the fact that the payments were made could have the indirect effect of making the Province potentially liable on the guarantees on the basis of the interim agreements but without the protection that was expected to be provided by the formal agreements.

In a management letter to both Deputy Provincial Treasurers at the conclusion of the audits, I made the following recommendation:

Recommendation No. 45

It is recommended that implemented guarantee payments under the Small Business Term Assistance Fund program only be made on the basis of completed formal agreements with lending institutions containing the precise terms of the Province's guarantee.

This recommendation also applies to any implemented guarantee payments under the Farm Credit Stability Fund Program.

2.28.5 **Land Purchase Fund** — year ended March 31, 1988

Observations from Financial Audit Work

At March 31, 1988, the Land Purchase Fund held land costing approximately $52.2 million on which development had commenced. This situation is contrary to the normal practice of reimbursing the Fund from voted funds for the cost of land plus interest charges before development begins.

It is understood that development began prior to reimbursement because the 1987-88 supply votes of the Department of Public Works, Supply and Services did not include amounts for the cost of the land. As a result, the Department's program costs are understated in 1987-88 by the cost of the land plus interest.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit,it was recommended that the Treasury Department's Budget Bureau ensure that

budget estimates presented to the Legislative Assembly include sufficient amounts to allow reimbursement of the Land Purchase Fund in the year that land is required for development.

The Treasury Department has responded that for 1989-90, the appropriate level of funding will be requested for the Department of Public Works, Supply and Services to permit that Department to reimburse the Fund for properties on which development is to take place. In the current year, 1988-89, the supply votes of the Department of Public Works, Supply and Services include amounts to reimburse the Fund for properties on which development has already taken place.

2.28.6 **Treasury Branches Deposits Fund** — year ended March 31, 1988

The annual financial audit was extended to include the following:

— An examination of the system and procedures used to control the revenues and costs associated with Treasury Branches lending activities (asset liability management).

— An examination of Treasury Branches use of its head office general ledger and branch loan recording system to provide useful cost-effective management information.

Observation from Financial Audit Work

Loan loss provision — Substantial audit adjustments to the loan loss provision were needed in 1988 and the previous year. Adjustments were needed because of inadequacies in the system for considering specific losses on existing loans that were experiencing collection difficulties. Additionally, proposals for general loan loss provisions were not supported by objective criteria which reflect Treasury Branches past loss experience.

In a management letter to the Superintendent at the conclusion of the audit, I made the following recommendation:

Recommendation No. 46

It is recommended that the systems used by Treasury Branches to estimate loan loss provisions be improved.

Improved systems for estimating loan losses would assist in profit planning, determining returns on various loan portfolios, pricing loans at interest rates which will provide a suitable overall return on the portfolio, and in financial reporting. In the management letter, I suggested that factors such as the nature, volume and quality of the loan portfolio, industry concentrations, economic conditions, previous loss experiences and trends in the level of loans in financial difficulty and arrears for loans considered good should be considered when estimating general loan loss provisions.

Following the issue of the management letter, Treasury Branches retained consultants to review, among other things, the systems and methods used by Management to estimate loan loss provisions.

Observations from Extended Audit Work

Asset liability management — Treasury Branches Management has not defined a maximum acceptable risk associated with interest term mismatch and the total acceptable loan exposure for various loan programs.

The primary objective of asset liability management is to reduce and manage risk in the event of changes in interest rates. A mismatch between the interest rollover date of deposit liabilities and the loans they are funding will create an interest rate risk sometimes referred to as a gap. Management of asset and liability gaps for specific maturities plays a significant part in Treasury Branches profitability.

Managing and controlling risk includes predetermining any action required when risk levels become unacceptable. Undefined or incomplete policies and procedures can result in delays in decision making and losses.

In a management letter to the Superintendent at the conclusion of the audit, I made the following recommendation:

Recommendation No. 47

It is recommended that Treasury Branches establish a maximum acceptable risk for interest term mismatch, and maximum amounts for various loan programs to control credit risk.

Financial and accounting information — Current systems summarize information in a manner that does not disclose some useful components of the information. For example, it is not possible to monitor or explain changes in loan and deposit portfolios because debit and credit transactions are netted, and cash transactions, accruals, adjustments and transfers are summarized before posting to the general ledger. In addition, accounts for fees on advances do not distinguish the nature of fees received and do not facilitate the appropriate amortization of fees revenue.

Although the required information can be obtained by detailed examination of original transactions, this process is expensive and time consuming. Modifying the present summarization methods could achieve better results in a cost-effective manner.

In a management letter to the Superintendent at the conclusion of the audit, it was recommended that financial and management reporting systems be enhanced to provide summary information of the source and use of funds for operating, investing and financing purposes.

2.28.7 Financial audits of the following were also completed:

Alberta Capital Fund — year ended March 31, 1988
Alberta Heritage Foundation for Medical Research Endowment Fund — year ended March 31, 1988
Alberta Heritage Scholarship Fund — year ended March 31, 1988
Alberta Municipal Financing Corporation — year ended December 31, 1987
Alberta Provincial Corporation Loan Fund — year ended March 31, 1988
Alberta Risk Management Fund — year ended March 31, 1988
Consolidated Cash Investment Trust Fund — year ended March 31, 1988
General Trust Account — year ended March 31, 1988
Pension Fund — year ended March 31, 1988
Treasury Revolving Fund — year ended March 31, 1988
Utility Companies Income Tax Rebates Fund — year ended March 31, 1988

2.29 OTHER

This section deals with the audits of various entities which have not been dealt with in the foregoing sections. Essentially, these are irrigation districts, section 12(b) audits, the Province's lottery operations and miscellaneous trusts.

Of the matters reported to management, the observations below were selected for inclusion in this report.

2.29.1 **Irrigation Districts**

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1987-88 fiscal year.

The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, their audited financial statements are not published in the public accounts of the Province.

2.29.2 **Section 12(b) Audits**

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Select Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1987-88 fiscal year, the Audit Office audited the financial statements of the following pursuant to section 12(b):

ACCESS Charitable Foundation of Alberta
Alberta Children's Hospital Research Centre
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Staff Benevolent Fund
University of Alberta Hospitals Staff Charities Fund

Observations from Financial Audit Work

Reservations in audit reports — My reports on the financial statements of

ACCESS Charitable Foundation of Alberta,
Foothills Hospital Foundation,
Grande Prairie Regional College Foundation,
Olds College Foundation, and
Sulphur Development Institute of Canada (SUDIC)

contained reservations of opinion because, as explained in section 3.2.2 of this report, they receive donation or similar revenue which is not susceptible of audit verification.

2.29.3 **Lottery Operations** — year ended March 31, 1988

Observation from Financial Audit Work

The new legislation to legitimize the way the Province deals with lottery proceeds, costs and distributions, has not yet been proclaimed.

In my last four annual reports (1986-87 section 2.29.3), I noted that the Province's lottery revenues and expenditures were being handled by the Western Canada Lottery Corporation under a license issued pursuant to the Province's Interprovincial Lottery Act. The problem created by this arrangement was that the Interprovincial Lottery Act does not provide the power to grant a license which allows public money to remain outside of the Province's General Revenue Fund.

The Interprovincial Lottery Amendment Act, which received Royal Assent in May 1988, will in future allow lottery proceeds to be handled through a new Lottery Fund. Administrative arrangements for operating the Lottery Fund were being made when the 1987-88 audit concluded. When the Interprovincial Lottery Amendment Act is proclaimed and the Lottery Fund is established, my previously reported concerns in this regard will be eliminated.

2.29.4 **Miscellaneous Trusts** — year ended March 31, 1988

Trust funds under Provincial administration are not included in the Province's consolidated financial statements because the Province has no equity in them. At March 31, 1988, trust funds under administration amounted to $1,826 million. Summarized information of the funds making up this amount is provided in Schedule 1.12 of the consolidated financial statements.

Trust funds for which the Audit Office audits separate financial statements are reported on in sections 2.3 to 2.28 of this report. The following trust funds were treated as a group of similar entities and sufficient audit work was performed on the group to include it in Schedule 1.12 of the consolidated financial statements at March 31, 1988:

ADVANCED EDUCATION:
- Advanced Education Endowment Fund
- John Joseph Collett Memorial Scholarship Fund

AGRICULTURE:
- Claude Gallinger Memorial Fund
- National Tripartite Price Stabilization Program Trust Account
- Pennington Memorial Scholarship Fund
- Thomas Caryk Memorial Scholarship Fund

ATTORNEY GENERAL:
- Land Titles Offices Trust
- Maintenance Enforcement Trust
- Various Courts and Sheriffs' Offices Trust

COMMUNITY AND OCCUPATIONAL HEALTH:
- Various Institutions Trust Accounts

CONSUMER AND CORPORATE AFFAIRS:
- Collection Practices Act Trust
- Debtors Assistance Trust
- Insurance Companies Trust
- Orderly Payment of Debts
- Securities Act Trust

CULTURE AND MULTICULTURALISM:
- Fort Dunvegan Historical Society Trust Fund

EDUCATION:
- Expo '86 Student Travel Trust Fund
- Federal French Language Grants Fund
- School for the Deaf Donations
- School for the Deaf Pupils Trust
- Mildred Rowe Weston Estate Trust

FORESTRY, LANDS AND WILDLIFE:
- Junior Forest Warden Fund

LABOUR:
- Long Term Disability Benefit Fund - Bargaining Unit

MUNICIPAL AFFAIRS:
- Metis Settlement Associations Grants Administration Fund

PUBLIC WORKS, SUPPLY AND SERVICES:
- Public Works, Supply and Services Security Deposits Trust Fund

RECREATION AND PARKS:
- International Youth Year - 1985 Trust Fund
- 1987 Western Canada Games Trust Fund

SOCIAL SERVICES:
- Child Welfare Family Allowance Trust
- Child Welfare Trust
- Various Institutions Trust Accounts

SOLICITOR GENERAL:
- Correctional Institutions Trust Accounts

TREASURY:
- Bond and Coupon Accounts:
  - Matured Interest
  - Unpresented Debentures
- A.L. Sifton Estate
- Ultimate Heir Trust Fund "A"
- Ultimate Heir Trust Fund "B"

2.30 CROWN-CONTROLLED ORGANIZATIONS

2.30.1 Crown-controlled organizations are defined by section 1(b) of the Auditor General Act. Essentially, an entity qualifies to be so designated where more than 50% but less than 100% of its voting shares are owned by the Crown or where less than a majority of its members or directors can be appointed by the Government, but the entity is responsible for the administration of public-money or Crown assets.

Crown-controlled organizations operating during 1987-88 were:

North West Trust Company
354713 Alberta Ltd.

The Auditor General is not the auditor of these entities. His responsibilities relating to their financial statements are limited to the review functions described in section 16 of the Auditor General Act.

SECTION 3 - REPORTING CRITERIA, RESERVATIONS AND PUBLIC ACCOUNTS

3.1 REPORTING CRITERIA AND TYPES OF AUDIT

3.2 RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS

3.3 AUDIT OF THE PUBLIC ACCOUNTS

3.4 CONSOLIDATED OPERATING STATISTICS

3.5 COMMENTARY ON THE PUBLIC ACCOUNTS

3.1 REPORTING CRITERIA AND TYPES OF AUDIT

3.1.1 Section 25 of the Auditor General Act allows me to exclude from this report matters which are, in my opinion, immaterial or insignificant. My reporting on the work of the Audit Office is, thereby, focussed on the more significant matters. When determining significance, I take into account the nature, materiality, and sensitivity of the matter relative to the individual entity and the Government as a whole.

Recommendations arising from the work of my Office which I particularly want to bring to the attention of the Legislative Assembly are numbered and shown in italic type.

Communication of Audit Observations

3.1.2 The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

At the conclusion of all audits, meetings (exit conferences) were held to discuss audit findings and concerns. The nature of the matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, observed instances of non-compliance with legislative and other authorities, system deficiencies, control weaknesses, and related recommendations. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entity.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations for corrective action, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office to all who attended, thereby minimizing the risk of any misunderstanding concerning observations raised and action promised.

Audit observations and recommendations judged to be of concern to senior management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies which are referred to in section 2(5) of the Financial Administration Act.

Subsequently, using the criteria outlined in 3.1.1 above, the observations and recommendations considered important enough to be reported to the Legislative Assembly were selected for inclusion in this report. In the course of preparation, the report was reviewed by the Province's Audit Committee. Finally, before the annual report was published, all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

Government Responses

3.1.3 The Provincial Treasurer on behalf of the Government has prepared a report addressed to the Select Standing Committee on Public Accounts which contains responses to the numbered recommendations in my report for the 1986-87 fiscal year.

Non-compliance with Legislative Authorities

3.1.4 Non-compliance with legislative authorities is reported in this report pursuant to sections 19(2)(a) and (b) of the Auditor General Act.

All transactions and activities examined in the course of auditing departments, funds and Provincial agencies in accordance with generally accepted auditing standards are also examined to determine whether they comply with the significant financial and administrative authorities that govern them. These authorities include primary authorities such as statutes, and subordinate authorities emanating therefrom such as regulations, Orders in Council, contracts and conditional grant agreements.

In my opinion, except for the instances of non-compliance described in this report, those transactions and activities examined in the course of auditing departments, funds and Provincial agencies complied, in all significant respects, with relevant financial and administrative authorities. The instances of non-compliance reported herein are only those that were observed and which I believe are significant enough to be brought to the attention of the Legislative Assembly. They should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not examined.

Types of Audit

3.1.5 Throughout section 2 of this report, the term "financial audit" is used repeatedly. In this context, a financial audit encompasses:

— audit procedures considered necessary to support the expression of an opinion on financial statements,

— a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and

— an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, the financial audit was extended to include examining systems beyond what was considered necessary to support the expression of an opinion on the financial statements. These audit extensions are identified in section 2 of this report. All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1987-88 have been reported to management.

3.2 RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS

3.2.1 Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. For 1987-88, fourteen such reservations were issued; viz:

3.2.2 Twelve reservations of opinion were because the financial statements of:

— ACCESS Charitable Foundation of Alberta,
— Alberta Cancer Foundation,
— Alberta Hospital Edmonton Foundation,
— Alberta Sport Council,
— Foothills Hospital Foundation,
— Glenbow-Alberta Institute,
— Grande Prairie Regional College Foundation,
— Olds College Foundation,
— Sulphur Development Institute of Canada (SUDIC),
— The Alberta Educational Communications Corporation,

— The Recreation, Parks and Wildlife Foundation, and
— University Hospitals Foundation

include donations or similar revenue which cannot be audited for completeness in accordance with generally accepted auditing standards.

These reservations of opinion do not reflect adversely on the records or financial statements of the above entities. Rather, they are a product of the nature of the revenue. For most types of revenue, an auditor can calculate or anticipate the completeness of recorded revenue by reference to the auditee's records, or by independent verification. Where donations and certain other types of revenue are received from the public in significant or potentially significant amounts, however, auditors can often do no more than examine the amounts that are recorded as received. They cannot verify that all such revenue received has been recorded.

In these circumstances, generally accepted auditing standards require auditors to express a reservation of opinion on the financial statements by drawing attention to the nature of the revenue and describing the limited audit work that was possible.

3.2.3 One reservation of opinion was because the financial statements of the Alberta Heritage Savings Trust Fund are not prepared in accordance with acceptable accounting principles. As discussed more fully in section 2.28.3 of this report, the practice of including deemed assets, and deemed equity represented by deemed assets, on the Heritage Fund's balance sheet is not appropriate, nor is the presentation in accordance with generally accepted accounting principles. Deemed assets are not assets of the Heritage Fund.

3.2.4 One reservation of opinion was because the financial statements of the Improvement Districts' Trust Account did not include certain assets and liabilities that had been transferred to the Trust Account from municipalities. Further details are provided in section 2.20.3.

3.2.5 In all other cases, I was able to report without reservation that the financial statements examined present fairly the financial position of the entities at March 31, 1988, or such other accounting period ended within the year ended March 31, 1988, and the results of their operations and the changes in their financial position for the period covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

3.3 AUDIT OF THE PUBLIC ACCOUNTS

3.3.1 The public accounts of the Province are published in one volume. The volume contains, together with the Auditor General's reports thereon, the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund, details of expenditures and revenues by department, and the financial statements of revolving funds, regulated funds and Provincial agencies. Some other statements and reports are included to comply with the Financial Administration Act and other statutes.

In addition, a separate volume containing details of expenditures by payee is published as supplementary information.

3.3.2 The Auditor General's report on the Province's 1987-88 consolidated financial statements was as follows:

AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1988 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 1 to the consolidated financial statements applied on a basis consistent with that of the preceding year.

Donald D. Salmon, CA
Auditor General

Edmonton, Alberta
October 14, 1988

3.3.3 The above report covers the consolidated financial statements of the Province. A similar auditor's report was issued (see section 2 of the public accounts) on the financial statements of the General Revenue Fund and the detailed information of departmental expenditures and revenues (see section 3 of the public accounts). The volume of supplementary information containing details of expenditure by payee is not covered by these reports since it is not an integral part of public accounts.

The above Auditor's Report, together with the overall assessment in section 1.1.2 of this report, is the culmination of most of the work done each year by the Audit Office. In effect, however, the report covers more than just the consolidated financial statements and the consolidation process. It also covers the 1987-88 audits of the various consolidated entities. These include the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately eighty-five Provincial agencies and other funds (see the Index).

These audits, together with the annual audits of the universities, colleges, technical institutes, hospitals, irrigation districts and trust funds are performed as explained in section 4.3 of this report, which describes the audit approaches employed.

3.4 CONSOLIDATED OPERATING STATISTICS

3.4.1 The consolidated financial statements of the Province are an aggregation of most, though not all, of the entities administered and owned by the Province of Alberta. They combine the operating results and financial positions of the Province's General Revenue Fund, the Alberta Heritage Savings Trust Fund and the other entities whose financial statements are published in sections 4 through 7 of the public accounts.

The consolidation, however, does not include the Provincially owned universities, colleges, technical institutes, hospitals and related funds. The reasons for their exclusion and the Auditor General's comments thereon are explained in section 2.2.1 of this report.

Consolidation Methods

3.4.2 The 1987-88 consolidated financial statements, published by the Province, report on its financial condition and results of operations. They serve as a principal means of communicating financial information to those not involved in the Province's financial administration.

The financial statements of the General Revenue Fund (GRF) are sometimes inappropriately used for reviewing the Province's overall financial condition and operating results. In sections 3.5.2 and 3.5.4 of this report, I discuss the GRF and point out that the GRF does not include all deficits incurred by Provincial agencies, regulated funds and commercial enterprises. For this reason, the consolidated financial statements are more appropriate for reviewing the Province's financial affairs.

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants is working to improve public sector financial reporting practices. It has recently issued Accounting Statements concerning the Government Reporting Entity, and Accounting for Pension Obligations. I have discussed these Statements and made recommendations in section 2.2.1 of this report.

The Province is, therefore, reporting on its financial condition and operating results in a world of evolving standards. What was generally accepted until recently is being debated today and will likely be improved upon tomorrow. For example, PSAAC is presently considering how physical assets should be accounted for by governments and what information should be reported in their financial statements.

3.4.3 The consolidated financial statements show that for the 1987-88 fiscal year, the Province recorded a consolidated net expenditure, i.e. an annual deficit of $1,387 million (1986-87 – $4,054 million). They also show that at March 31, 1988, the consolidated net assets of the Province, i.e. the accumulated surplus, was $7,129 million (March 31, 1987 – $8,516 million).

These figures should be viewed in the context of the evolving standards that I have mentioned above.

For example, as indicated in section 2.2.1, the consolidation does not include the financial statements of the Provincially owned universities, colleges, technical institutes, and hospitals. If the recorded net assets (excluding fixed assets) of these entities were included in the consolidation, the Province's accumulated surplus at March 31, 1988 would be increased by approximately $177 million.

In addition, most of the Province's fixed assets are excluded from the consolidation. This means that the accumulated surplus at March 31, 1988 does not include the value of land (except that held for rental and resale), buildings, equipment, fixtures and furniture owned by the Province, or the renewable and non-renewable resources. Similarly, the accumulated surplus does not include the value of most inventories of consumable supplies and materials at March 31, 1988. The effect of these accounting policies is that the costs of fixed assets and consumable inventories are treated as expenditures in the fiscal years in which they are acquired, rather than in the years in which they are consumed or the benefits from their acquisition are realized.

Regardless of the valuation method used, it is obvious that including all of the Province's assets in the consolidated statements would increase significantly the Province's accumulated surplus at March 31, 1988.

Another accounting policy that has a significant impact on the accumulated surplus is the method used to account for the Province's pension plan liabilities. As explained in section 2.2.1 of this report, the unrecorded portion of the Province's pension plan liabilities is disclosed in a note to the consolidated financial statements. Hence, it is not included in the computation of the accumulated

surplus. Depending on the assumptions made in calculating the liability, including the full liability for pension plan obligations would reduce the Province's accumulated surplus at March 31, 1988 by approximately $7.9 billion.

3.4.4 The Province's consolidated operating results for the three years ended March 31, 1988 were as follows:

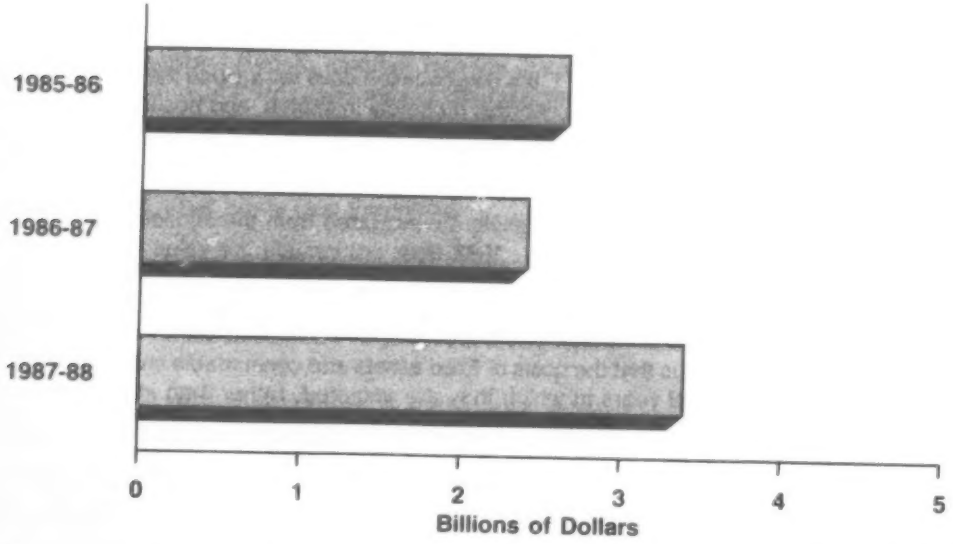
	1985-86	1986-87	1987-88
		(Millions of Dollars)	
Revenue	$12,734	$ 9,039	$11,301
Expenditure	12,798	13,093	12,688
Annual deficit	(64)	(4,054)	(1,387)
Accumulated surplus at beginning of year	12,634	12,570	8,516
Accumulated surplus at end of year	$12,570	$ 8,516	$ 7,129

3.4.5 Consolidated revenue comprises:

Taxes	$ 2,642	$ 2,427	$ 3,384
Non-renewable resource revenue	4,932	1,892	2,630
Payments from Government of Canada	1,742	1,642	1,861
Fees, permits and licenses	587	520	603
Trading profits	253	179	345
Investment income	2,160	1,965	1,848
Other	418	414	630
	$12,734	$ 9,039	$11,301

3.4.6 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated revenue during the three years ended March 31, 1988:

Taxes



Tax revenue increased by $957 million or 39.4% in 1987-88 compared to the previous year.

The main reasons for the 1987-88 increase were:

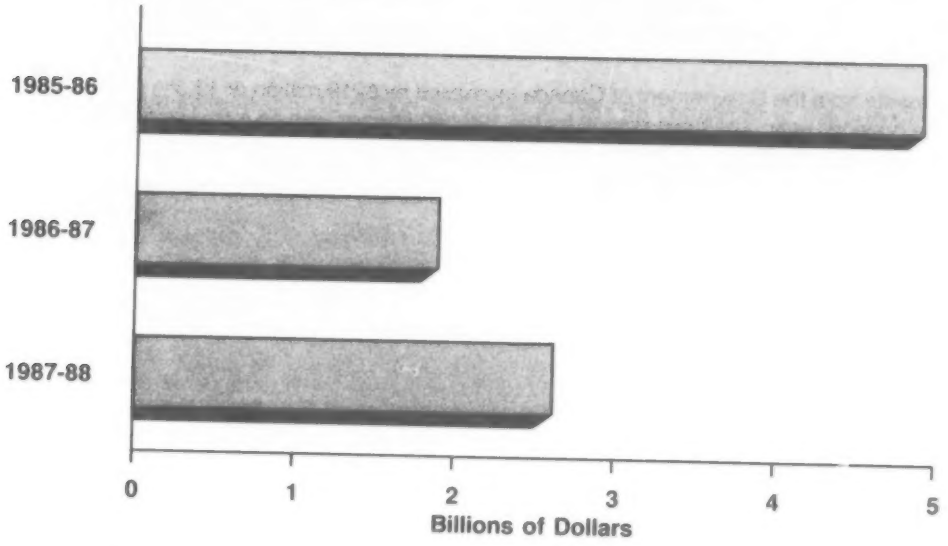
— personal income tax increased $468 million primarily because of an increase in the basic rate from 43.5% to 46.5% (of Federal tax), a high-income surtax of 8% upon Alberta tax payable, and a flat rate tax of 1% on taxable income. The rate changes as well as the termination of the renter assistance credit program took effect in the 1987 taxation year.

— fuel tax increased $203 million primarily as a result of a 5 cents a litre tax on fuel oil, with some exceptions, purchased by consumers in Alberta effective June 1, 1987.

— corporate income tax increased $176 million primarily as a result of an increase in the rate to 15% from 11% for large corporations not entitled to small business deduction (effective April 1, 1987) and an increase in the profitability of corporations in the oil and gas producing industry.

— tobacco tax increased by $73 million mainly because of a tax increase of 2.52 cents on each cigarette purchased after March 20, 1987.

Non-Renewable Resource Revenue

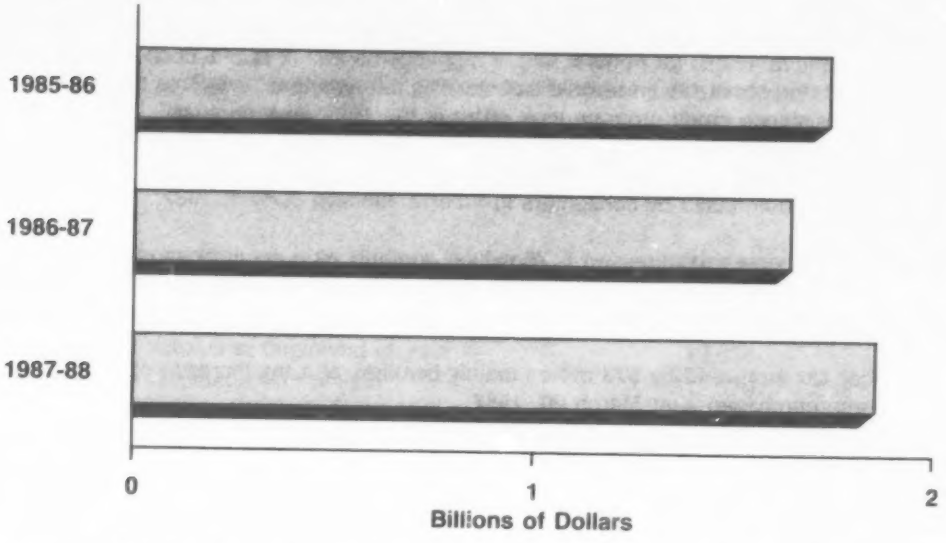


Non-renewable resource revenue increased by $738 million or 39.0% in 1987-88 compared to the previous year. The main reasons for the 1987-88 increase were:

— crude oil royalty increased by $334 million due to increased volume and price. Volume increased by 8 million cubic metres and the Provincially-determined price used in the calculation of royalty averaged $147.58 per cubic metre compared to $123.58 for the previous year.

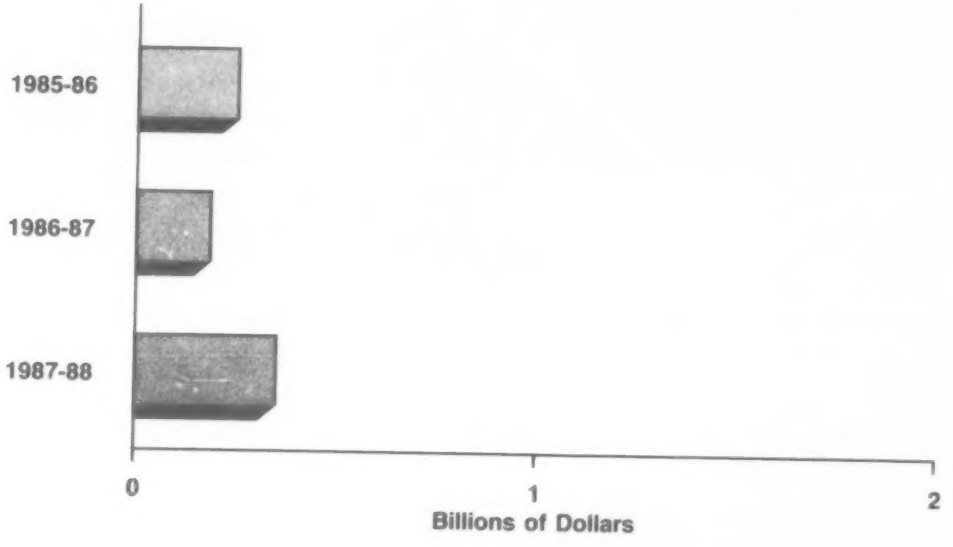
— bonuses and sales of Crown leases increased $469 million due to an increase in the area sold and price obtained.

Payments from the Government of Canada



Payments from the Government of Canada increased by $219 million or 13.3% in 1987-88 compared to the previous year. The main reason for the 1987-88 change was an increase of $186 million relating to Established Programs Financing because of changes in gross national product and tax transfer points that affect the allocation.

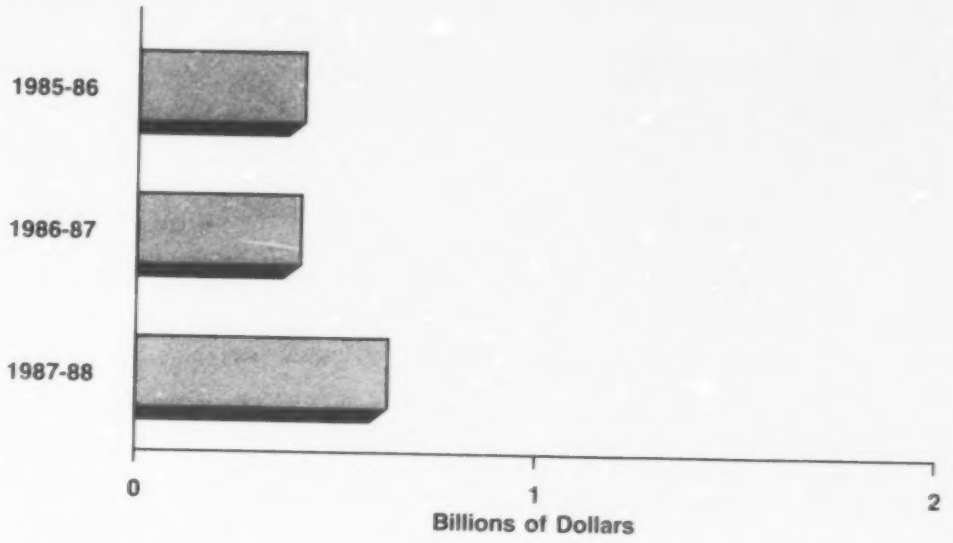
Trading Profits



Trading profits increased by $166 million or 92.7% in 1987-88 compared to the previous year.

The main reason for the 1987-88 change was a decrease of $105 million in the operating deficit of The Workers' Compensation Board and an increase of $48 million in the net profit of the Alberta Liquor Control Board.

Other Revenue



Other revenue increased $216 million or 52.2% in 1987-88 compared to the previous year.

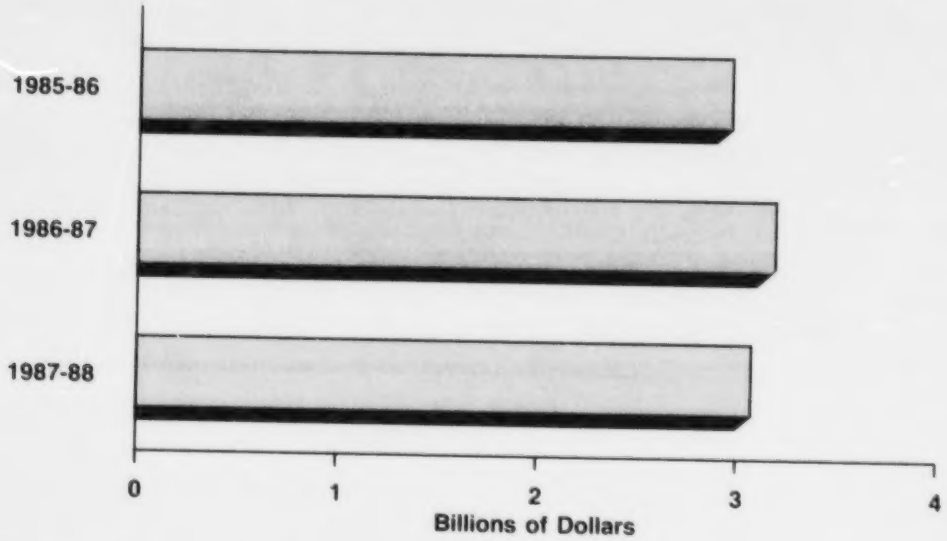
The main reason for the 1987-88 increase was an increase of $176 million in take-or-pay levies which are revenue of the Take-or-Pay Costs Sharing Fund. The Fund operated for only two months in the previous year.

3.4.7 Consolidated expenditure comprises:

	1985-86	1986-87	1987-88
		(Millions of Dollars)	
Health	$ 2,964	$ 3,190	$ 3,079
Education	2,544	2,673	2,648
Social Services	1,150	1,270	1,331
Regional planning and development	727	798	810
Housing	100	139	72
Recreation and culture	245	237	204
Environment	169	193	178
Resource conservation and economic development	1,980	1,706	1,476
Transportation and utilities	1,498	1,371	1,217
Protection of persons and property	405	442	461
General government	658	844	976
Valuation adjustments	358	230	236
	$12,798	$13,093	$12,688

3.4.8 The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated expenditure during the three years ended March 31, 1988:

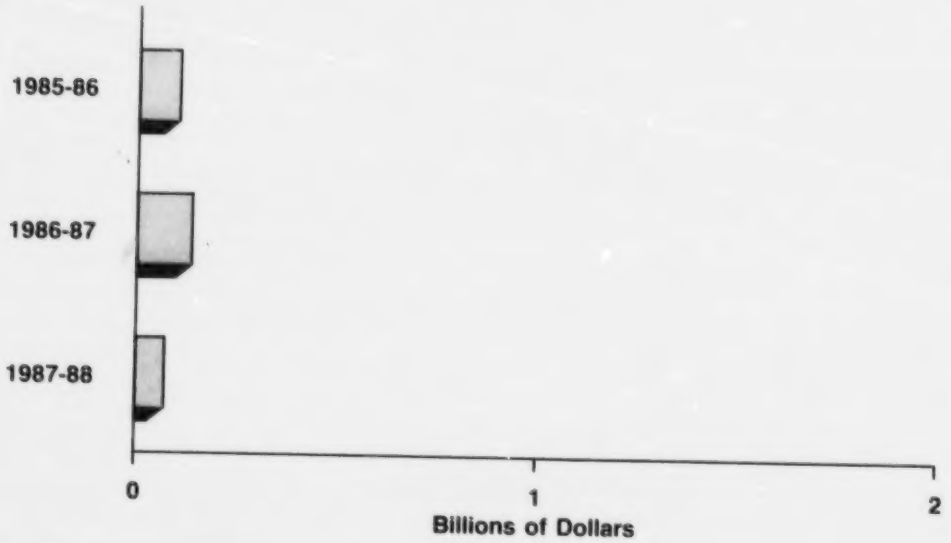
Health



Health expenditure decreased by $111 million or 3.5% in 1987-88 compared to the previous year.

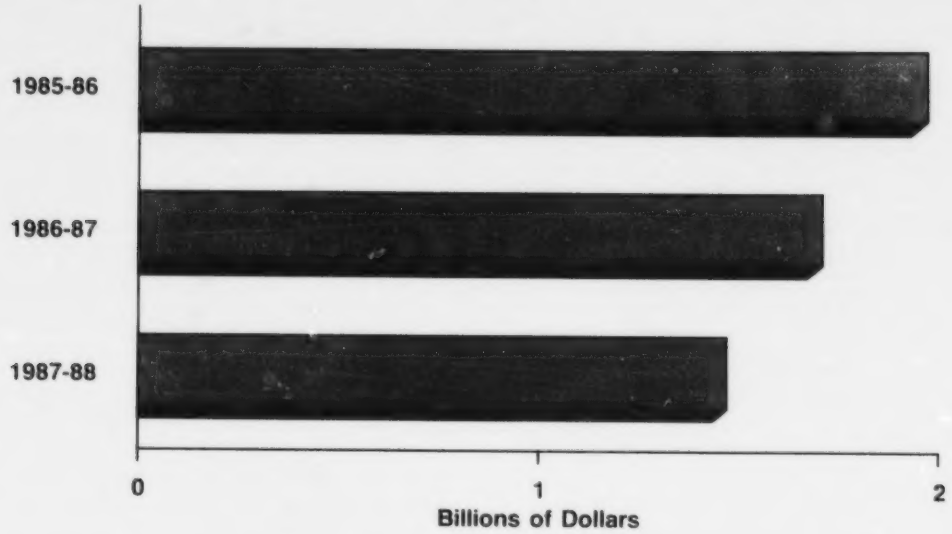
The main reason for the 1987-88 decrease was a reduction of $88 million in the cost of hospital construction by the Alberta Capital Fund.

Housing



Housing expenditure decreased by $67 million or 48.2% in 1987-88 compared to the previous year. The main reason for the 1987-88 decrease was a reduction in net capital expenditure of $44 million by the Alberta Mortgage and Housing Corporation.

Resource Conservation and Economic Development



Resource conservation and economic development expenditure decreased by $230 million or 13.5% in 1987-88 compared to the previous year.

The main reasons for the 1987-88 decrease were:

— incentive payments and expenses under the Alberta Petroleum Incentives Program Act decreased by $154 million as the program is being phased out. Incentive grants are not payable in respect of costs and expenses incurred after December 31, 1986. The final date for filing claims was extended to March 31, 1988.

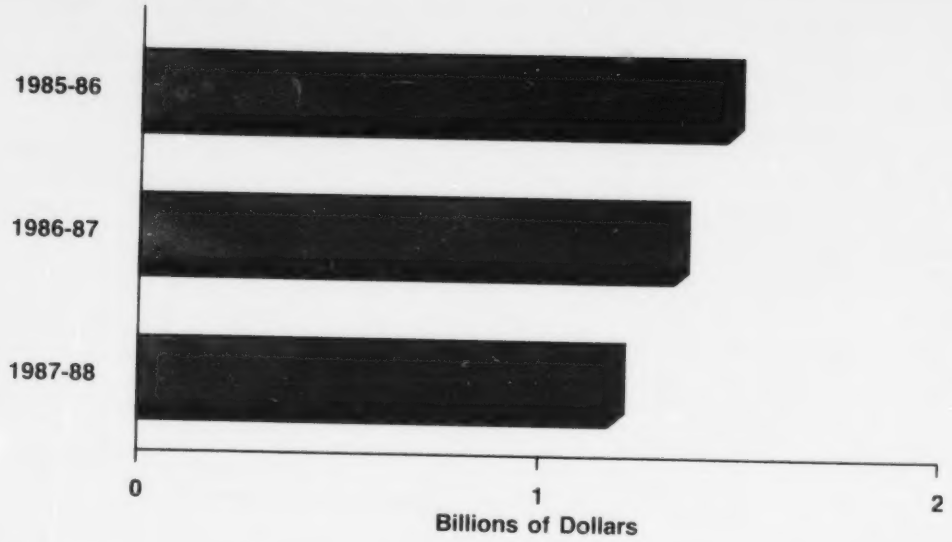
— a reduction of $42 million in expenditure by the Alberta Oil Sands Technology and Research Authority - Oil Sands Technology and Research Fund.

— a reduction by the Department of Agriculture of $39 million for support of primary production.

— miscellaneous net reductions amounting to $103 million.

The above decreases were offset by an increase of $56 million in the expenditures of the Farm Credit Stability Fund and a net increase of $52 million in the expenditures of the Take-or-Pay Costs Sharing Fund, and the Natural Gas Pricing Agreement Act and Market Development Funds.

Transportation and Utilities



Transportation and Utilities expenditure decreased by $154 million or 11.2% in 1987-88 compared to the previous year.

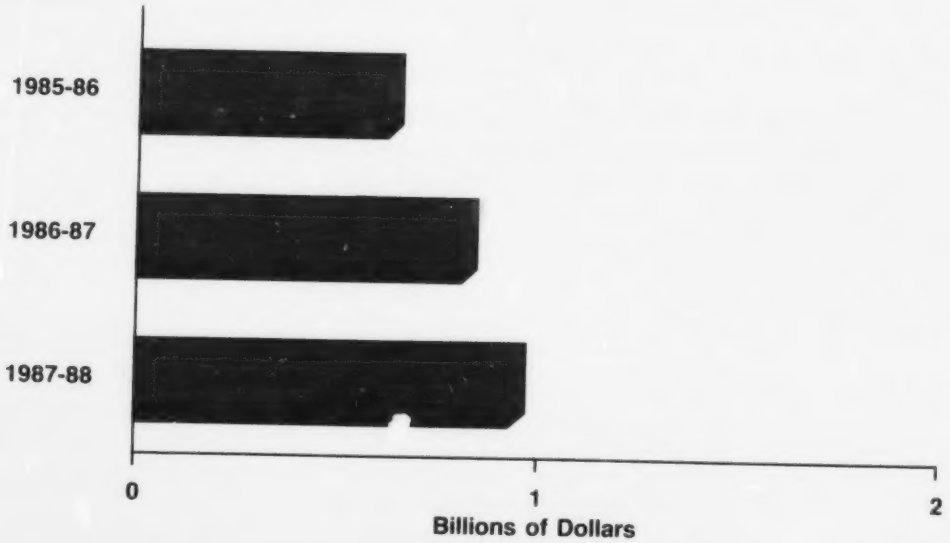
The main reasons for the 1987-88 decrease were:

— a reduction of $46 million in the construction and operation of transportation systems.

— a reduction of $50 million in gas rebates paid to producers by the Natural Gas Rebates Fund. The Fund is winding down.

— a reduction of $27 million in grants for electric energy price shielding.

General Government



General Government expenditure increased by $132 million or 15.6% in 1987-88 compared to the previous year.

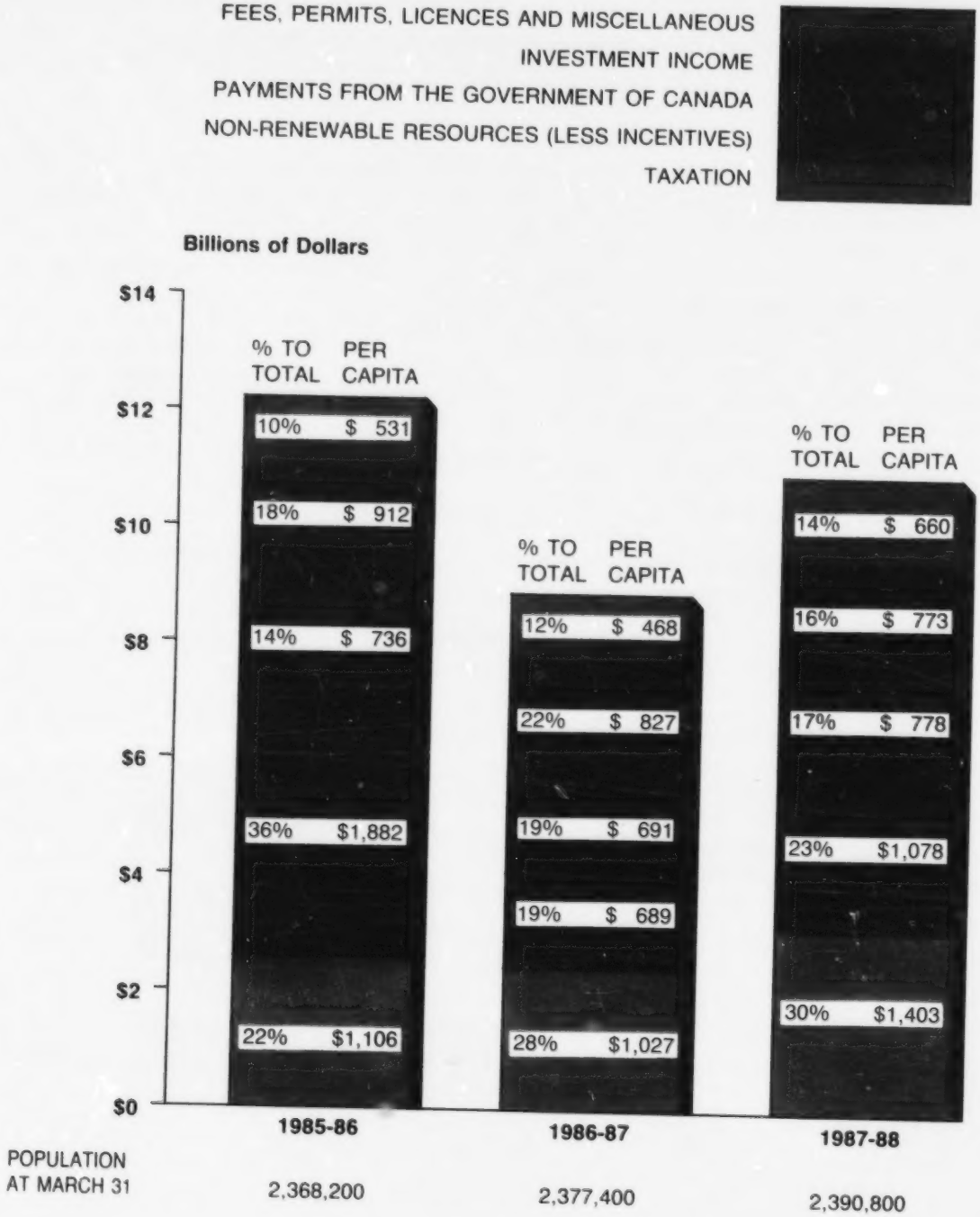
The main reason for the 1987-88 increase was an increase of $217 million in debt servicing costs. This increase was offset by a reduction of $89 million in planning and implementation of construction projects expenditure by the Department of Public Works, Supply and Services.

3.4.9 The financial information in the public accounts is displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. The following charts display some of the same financial information in an alternative and simplified manner, and are included in this report pursuant to subsection 19(3)(b) of the Auditor General Act.

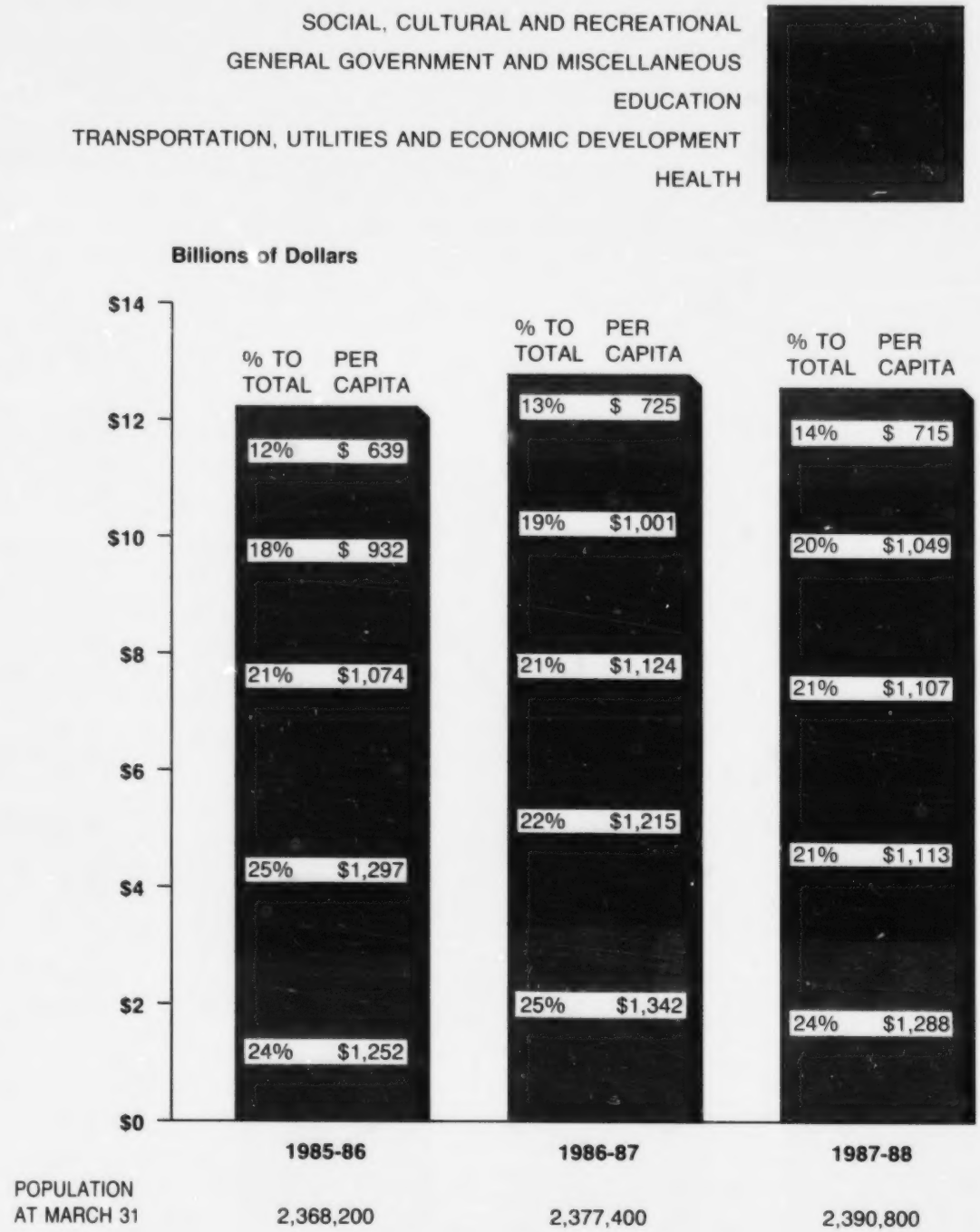
In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than the basis used in the public accounts. For example, in the charts freehold mineral tax is included in non-renewable resource revenue, whereas in the public accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting from gross non-renewable resource revenue, costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, petroleum incentive program grants, and geophysical and exploratory drilling incentives. In the public accounts, royalty tax rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as resource conservation and economic development expenditures.

Population figures in the charts are per the Alberta Bureau of Statistics. The figure at March 31, 1986 is final. The figures at March 31, 1987 and 1988, are postcensal estimates.

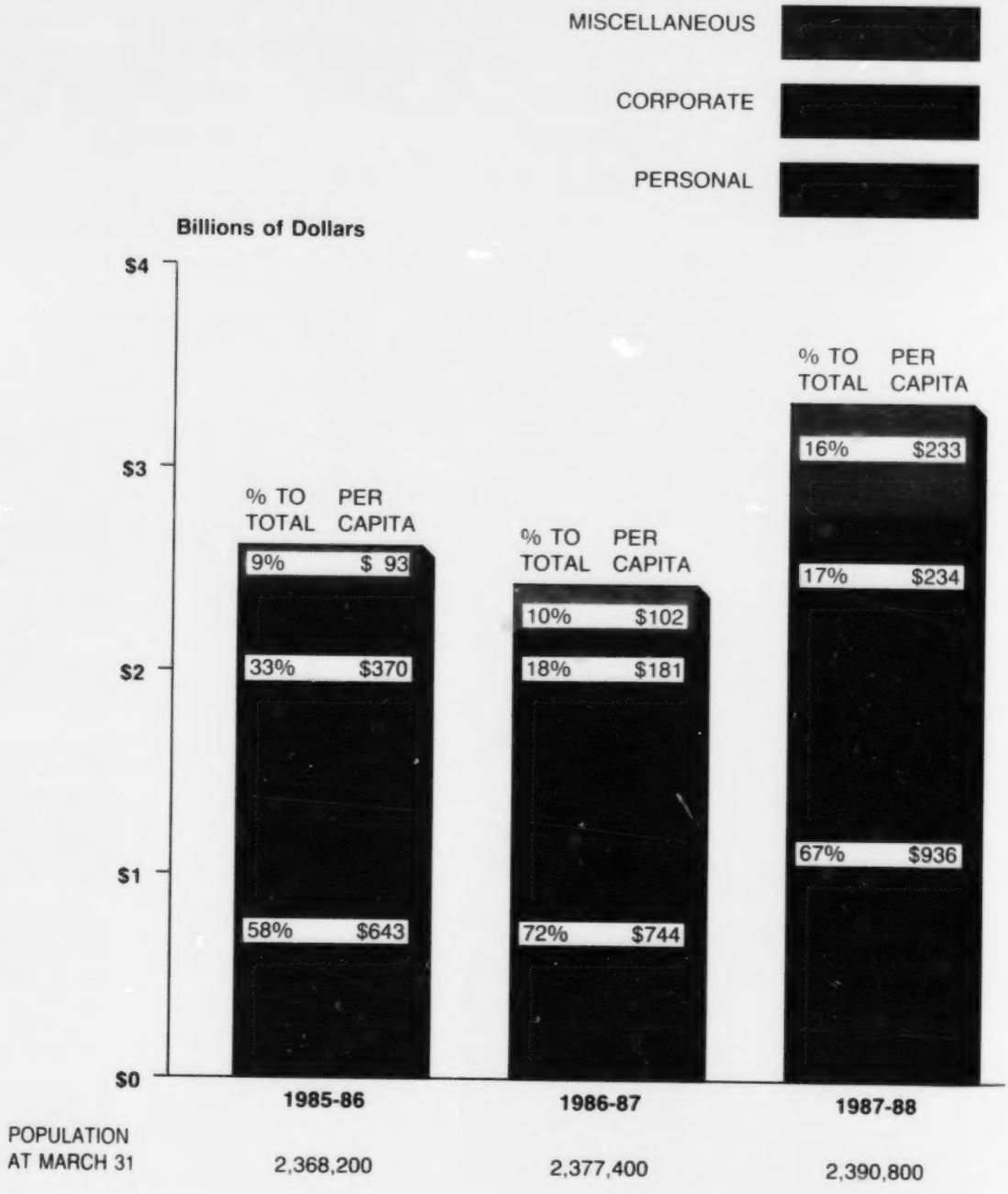
3.4.10 The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1987-88 presentation).



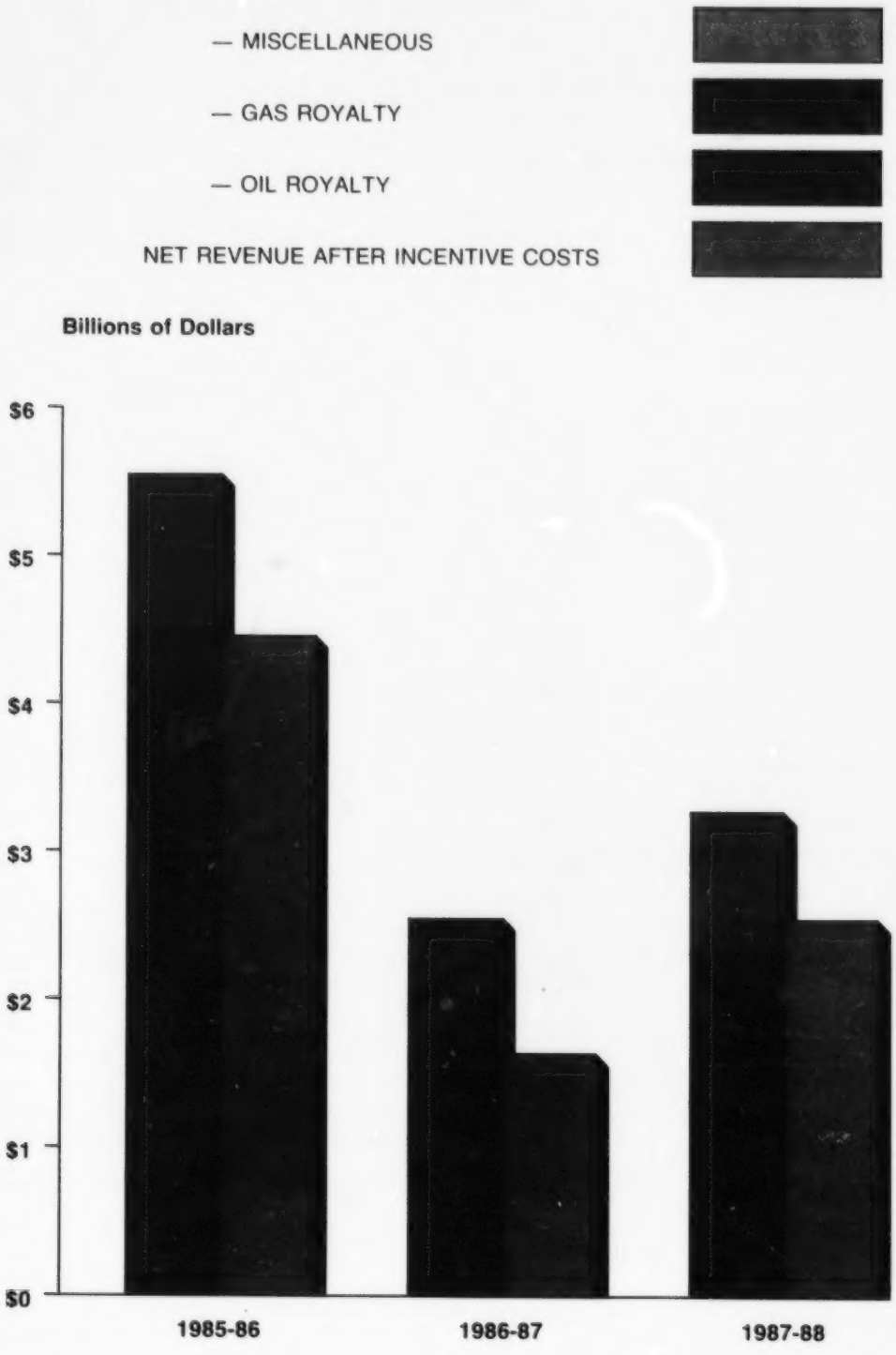
3.4.11 The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years. (Prior years' figures have been reclassified where necessary to conform to 1987-88 presentation).



3.4.12 The following chart shows the sources of taxes, the percentage of each source to total taxes, and taxes per capita, for the past three years.



3.4.13 The following chart shows non-renewable resource revenue for the past three years before allocations to the Alberta Heritage Savings Trust Fund.

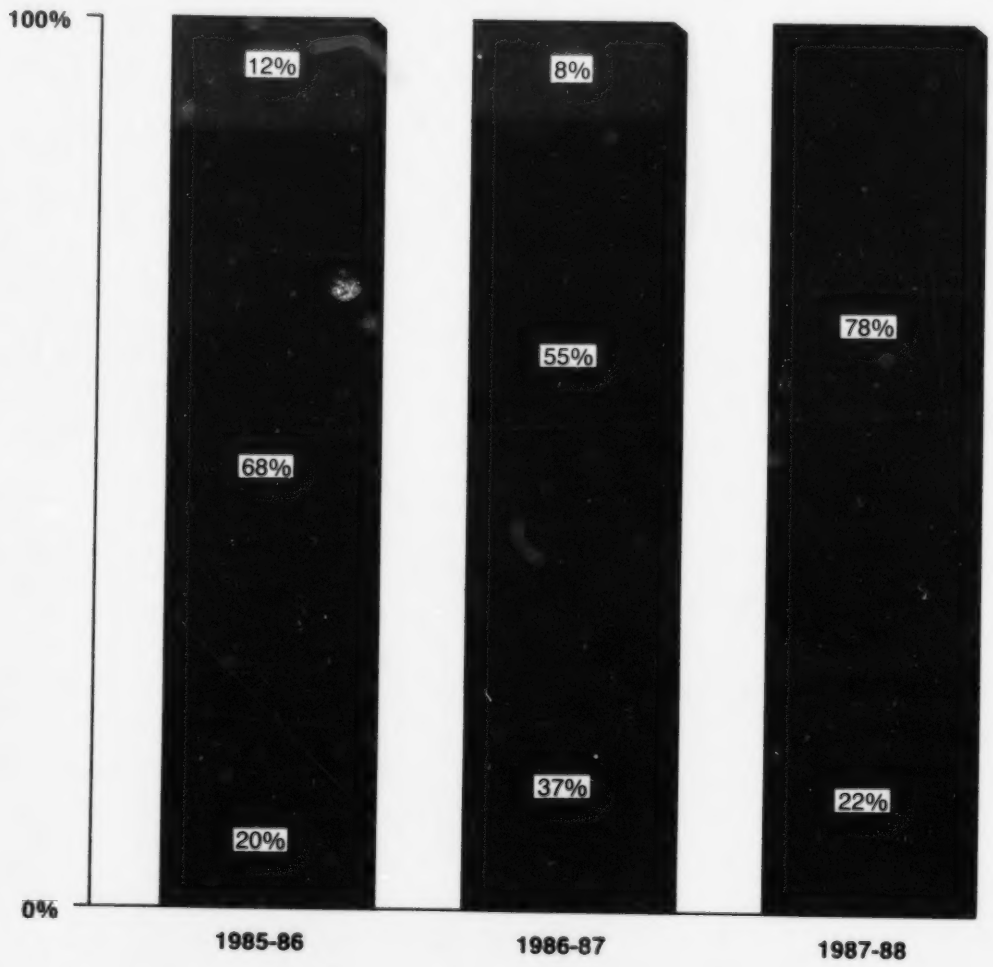


3.4.14 The following chart compares the disposition of non-renewable resource revenue for the past three years.

To the Alberta Heritage Savings Trust Fund.

To the General Revenue Fund.

Returned to industry by way of royalty tax credits, petroleum incentive program grants, and geophysical and exploratory drilling incentive grants.



3.5 COMMENTARY ON THE PUBLIC ACCOUNTS

3.5.1 This section of the report provides a commentary on some of the questions that I have been asked, in the Public Accounts Committee and elsewhere, relating to the public accounts.

3.5.2 Relationships between certain Provincial entities — The following information is provided to assist readers in understanding the relationships between certain entities included in the public accounts. Understanding the substance of some entities is difficult because financial structures are becoming more complex and there have been changes in the way certain activities are handled.

General Revenue Fund (GRF)

The GRF is the Province's main repository of public money. It is the fund that receives all revenues, pays all expenditures, and holds all assets and liabilities that are not assigned by legislation to other Provincial entities. Specifically or by implication, it guarantees the debt of all Provincial government entities. Accordingly, when the liabilities of a Provincial entity exceed its assets, the resulting deficit will normally be funded by the GRF. In other words, the GRF is the Province's 'fund of last resort.'

Most of the figures in the GRF's financial statements are the revenues, expenditures, assets and liabilities of the Province's government departments and legislative Offices. The financial activities of Provincial agencies and regulated funds are not reported therein, except for annual changes in their indebtedness with the GRF and contributions from the GRF to cover expenses or certain operating deficits. Because legislation does not require the GRF to make contributions to fund all deficits as incurred, deficits can accumulate in Provincial agencies, regulated funds and commercial enterprises.

Alberta Mortgage and Housing Corporation

Some of the programs administered by the Corporation are not intended to be self-sustaining. Over the years, contributions from the GRF have been needed to fund operating deficits.

Until 1985, the Corporation's annual operating deficits were covered by contributions from the GRF. Since then, an amendment to the Alberta Mortgage and Housing Corporation Act has allowed amounts represented by provisions for declines in asset values to be excluded from these contributions. As a result of this, the Corporation's deficit at March 1988 amounting to $586 million has not been funded by contributions from the GRF.

The property investments of the Corporation are funded primarily by debentures issued to the Alberta Heritage Savings Trust Fund. Thus, the majority of the Corporation's interest expenditure is investment income— in the Heritage Fund.

Alberta Agricultural Development Corporation (AADC)
Alberta Opportunity Company (AOC)

Both these corporations receive direct program support by way of contribution from the GRF and receive financing from the Alberta Heritage Savings Trust Fund.

At March 31, 1988, deficits not reflected in the GRF were $100.1 million for AADC and $22.1 million for AOC.

Alberta Capital Fund (ACF)

Certain capital project activities previously financed directly by the GRF are now channelled through the ACF. The ACF operates under the authority of the Financial Administration Act and finances capital construction projects with borrowed money.

The ACF debt servicing costs are funded by contributions from the GRF as they occur. However, the ACF's requirements for debt retirement are funded by contributions from the GRF over a period of years based on amortization of the capital cost of the projects financed by the ACF. This is why the ACF deficit at March 1988 of $449.6 million had not been funded by contributions from the GRF. The effect of using the ACF is to charge the GRF with the costs of capital assets over an extended period, rather than charging it with the costs in the year that the assets are acquired.

Farm Credit Stability Fund
Small Business Term Assistance Fund

These Funds were established in 1986-87 to provide financial assistance to Alberta farmers and small businesses.

Contributions from the GRF funded the deficits of these Funds at March 31, 1988. The deficits consist of the sum of payments made to the lending institutions for their administrative costs plus or minus, as appropriate, any difference between interest paid on borrowed funds and that earned on loans to farmers and small businesses.

Treasury Branches Deposits Fund

Treasury Branches is a division of the Province's Treasury Department. It is intended that it should operate as a financially self-sustaining entity that does not need subsidies from the GRF. For this reason, it is classified as a commercial enterprise in the Province's public accounts.

During the past economic downturn, as a result of loan losses, Treasury Branches experienced operating deficits. At March 1988, the accumulated deficit was $143 million. The Treasury Branches Act allows Treasury Branches to pay monies out of its operating surpluses into the GRF, and in past years it has done so. The Act, however, does not specifically require the GRF to make contributions to cover operating deficits. No part of the Treasury Branches' March 1988 accumulated deficit is reflected in the 1987-88 financial statements of the GRF.

3.5.3 Value of the Heritage Fund's investment in the Alberta Mortgage and Housing Corporation — It has been suggested that the Heritage Fund's investment in the Corporation, which at March 1988 stood at $3,279 million, may be overvalued. This suggestion is based on the premise that the value of the Corporation's real estate investments has declined in recent years to the extent that it is no longer able to repay its debentures with the Heritage Fund.

In my view, the Heritage Fund's investment in the Corporation is correctly valued. It must be remembered that, to the extent that declines in the Corporation's asset values are realized, they are funded by the GRF. As explained in section 3.5.2 above, only unrealized declines in value are not funded by the GRF. At March 1988, unrealized declines which had not been funded by the GRF amounted to $586 million.

It might be argued that the Corporation's debentures on the Heritage Fund's balance sheet should be written down by the amount of the Corporation's unfunded deficit, i.e. $586 million. This argument, however, ignores the fact that legislation requires the GRF to fund any portion of the Corporation's deficit that represents realized losses. Hence, the Corporation will always have the capacity to repay its Heritage Fund debentures because any losses incurred on realization of its assets will be made good by the GRF.

3.5.4 GRF budgetary revenue and expenditure — Since 1982, all of the Alberta Heritage Savings Trust Fund's net investment income has been transferred to the GRF. The Heritage Fund's activities include investing in debentures issued by Provincial Corporations.

Some non self-sustaining entities (e.g. Alberta Mortgage and Housing Corporation) pay interest to the Heritage Fund, which is then transferred to GRF budgetary revenue. Further, GRF budgetary expenditure includes payments to non self-sustaining entities (e.g. Alberta Mortgage and Housing Corporation) to cover part or all of the deficits of such entities. Therefore, the GRF budgetary revenues and expenditures each include connected intra-government transactions.

It should be noted that intra-government transactions are eliminated from the consolidated financial statements of the Province. Also, the consolidated financial statements include all deficits incurred by Provincial agencies, regulated funds and commercial enterprises. This in part explains the difference between the budgetary deficit of the GRF and the net expenditure in the Consolidated Statement of Revenue and Expenditure. Thus, as section 3.4.2 of this report points out, the consolidated financial statements should be used to review the overall financial position of the Province and its operating results.

SECTION 4 — THE AUDIT OFFICE

Reported pursuant to section 19(1)(a) of the Auditor General Act

4.1 ROLE OF THE AUDITOR GENERAL

4.2 REPORTING RESPONSIBILITIES

4.3 AUDIT APPROACHES

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.1 ROLE OF THE AUDITOR GENERAL

4.1.1 The Audit Office operates under the Auditor General Act. Its main responsibilities are reflected in the mission statement that the Auditor General has approved for the Office:

> The mission of the Office of the Auditor General of Alberta is to add credibility to the Government's financial reporting and improve the financial administration of the Province. The Office is expected to apply sound auditing principles, be a leader in the development and application of improved auditing techniques and demonstrate integrity, objectivity and accountability in its operations.

The Act deals with the role of the Auditor General in terms of reporting responsibilities. Only by inference does it deal with what those reports should be designed to achieve and how the role of the Auditor General should impact the administration of the Province's financial affairs.

Adding Credibility

4.1.2 A major role of all auditors is to provide assurance that financial information is reliable. In the private sector, for example, auditors provide assurance to shareholders of corporations that the financial statements issued by management are fairly presented. Similarly, legislative auditors provide assurance to their legislative bodies that financial and other accountability information issued by governments is fairly presented.

To appreciate the significance of a legislative auditor's role, it is necessary to understand the importance of accountability. In simple terms, accountability is the process by which governments are "held accountable" for complying with and not exceeding the authorities provided by their legislative bodies. These authorities may be primary authorities such as statutes, or subordinate authorities issued pursuant to primary authorities such as Orders in Council, regulations, ministerial orders, policy directives, corporation by- laws, contracts, agreements and administrative manuals.

By providing authorities and requiring compliance with them, legislative bodies control the administration of their jurisdictions. Periodically, the individuals and entities that receive these authorities must report back on how the authorities were exercised. The form of these accountability reports depends on the nature of the authorities provided.

As well as showing legislative bodies how the authorities they have provided were exercised, accountability reports frequently provide a basis for future policy decisions. Hence, it is important that the information reported be accurate and fairly stated. The work of independent legislative auditors, therefore, adds credibility to accountability reports and provides assurance to legislators that their decisions are based on reliable information.

My role, in this regard, can be illustrated by describing the accountability process as it relates to the Province's annual expenditure Appropriation Acts. Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. After the estimates have been formally approved by the Legislature, the Government and its administrators are responsible for their implementation.

In this way, the Assembly delegates authority to the Government to disburse funds for the approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved. This authority carries a responsibility to report back to the Legislative Assembly on how the funds and resources were administered.

The most important financial accountability information tabled in the Legislative Assembly is the annual public accounts of the Province. These are prepared by the Treasury Department and tabled by the Provincial Treasurer.

Each set of financial statements contained therein includes an auditor's report as to whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the entity concerned, in accordance with an appropriate disclosed basis of accounting and whether that basis has been consistently applied. Because of my independent status and position as an officer of the Legislature, such reports add credibility to the accountability information contained in the public accounts.

Financial accountability information is also subject to scrutiny by the Select Standing Committee on Public Accounts. This all-party committee acts on behalf of the Members of the Assembly in conducting an in-depth examination of the Government's management and control of public resources. Here again, the work of the Audit Office affects the accountability process. This annual report may be used as a guide by the Select Standing Committee in its review of the public accounts and the activities of individual departments, Provincial agencies and regulated and revolving funds.

Financial Administration

4.1.3 Adding credibility to accountability information, however, is only one of the functions of a legislative auditor. The Auditor General also reports to senior management on systems designed to strengthen internal control, to detect irregularities, to promote economy and efficiency and to control and administer resources. By reporting these matters together with recommendations for constructive change, the Audit Office contributes to improving financial administration.

Auditing Standards and Accounting Principles

4.1.4 The Auditor General Act prescribes the Auditor General's reporting responsibilities. However, it is silent as to the auditing standards to be used in discharging those responsibilities. I believe that the work of the Audit Office should adhere, as a minimum, to the auditing standards published by the Canadian Institute of Chartered Accountants (CICA).

The standards that apply additionally to auditors of public sector entities are in Statements issued by the Public Sector Accounting and Auditing Committee (PSAAC) of the CICA. The Auditing Recommendations of PSAAC are intended to apply to all entities in the public sector. In effect, PSAAC Auditing Recommendations supplement the CICA Handbook Auditing Recommendations to the extent necessary to recognize special circumstances in public sector auditing.

Accounting policies are the specific accounting principles used by reporting entities, and the methods used to apply those principles. Appropriate accounting policies are those that result in fair disclosure of financial information. Profit-oriented entities in the public sector should adhere to the Accounting Recommendations in the CICA Handbook. It is PSAAC's goal that other entities in the public sector base their accounting policies either on PSAAC Accounting Recommendations or on the CICA Handbook Accounting Recommendations, selecting the basis that is most appropriate to their individual objectives and circumstances. The basis chosen should be disclosed and consistently applied.

To date, PSAAC has issued five Accounting Statements:

1. Disclosure of Accounting Policies
2. Objectives of Government Financial Statements
3. General Standards of Financial Statement Presentation for Governments
4. Defining the Government Reporting Entity
5. Accounting for Employee Pension Obligations in Government Financial Statements

Compliance with Standards

4.1.5 The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles as set out in the CICA Handbook or, alternatively, in accordance with an appropriate disclosed basis of accounting. With respect to the Province of Alberta

Consolidated Financial Statements and the General Revenue Fund Financial Statements, because departures from generally accepted accounting principles are so numerous and significant, the Provincial Treasurer has chosen to explain the bases of accounting used in notes to the financial statements.

4.2 REPORTING RESPONSIBILITIES

4.2.1 I report to the Legislative Assembly under sections 18, 19 and 20 of the Auditor General Act, and to management under section 28 of the Act. In addition, specially requested reports can be issued from time to time under section 17 of the Act.

Section 18 Reports

4.2.2 In reports issued under section 18 of the Act, I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and whether they are on a basis consistent with those of the preceding year. Reports of this nature are similar to reports issued by auditors on financial statements of private sector organizations.

The section 18 report on the consolidated financial statements for 1987-88 is dated October 14, 1988 and is reproduced in section 3.3.2 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are contained in the public accounts of the Province.

Section 19 Reports

4.2.3 In section 19 reports, I report to the Legislative Assembly on the work of the Audit Office, and various other matters specified in section 19 of the Act that were observed during the course of that work. It also empowers me to call attention to any matter that I believe should be brought to the attention of the Legislative Assembly.

Section 20 Reports

4.2.4 In reports issued under section 20 of the Act, I report to the Legislative Assembly on any matters of importance or urgency which, in my opinion, should not be delayed until my next annual report.

No reports were issued under section 20 of the Act in respect of the fiscal year ended March 31, 1988.

Section 28 Reports

4.2.5 Reports issued under section 28 of the Act are more commonly referred to as management letters. The purpose of management letters, as explained more fully in section 3.1.2 of this report, is to communicate to management system weaknesses and deficiencies and other concerns observed during audits.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. Copies of most management letters are sent to the ministers responsible for the audited entities, except for Provincial agencies referred to in section 2(5) of the Financial Administration Act. Management letters are not made available to the Legislative Assembly or its select standing committees, as authorized by section 27 of the Auditor General Act.

Section 17 Reports

4.2.6 Under section 17 of the Auditor General Act, the Legislative Assembly and the Executive Council may ask the Auditor General to perform special duties. Whether those duties result in reports, and

to whom the reports are issued, depends on the terms of the request. During the 1987-88 fiscal year, I received no requests to perform special duties pursuant to section 17.

Audit Committee and the Select Standing Committee on Legislative Offices

4.2.7 Reports issued under sections 19 and 20 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Select Standing Committee on Legislative Offices. Before being tabled, however, they are reviewed by an Audit Committee established under section 21 of the Act. The members of the Audit Committee, all of whom are appointed by Order in Council, are:

Mr. William G. Stephen, FCA — Chairman
Partner
Stephen Johnson, Chartered Accountants
Calgary

Mr. Elvin A. Christenson, FCA
Credit Union Stabilization Corporation
Edmonton

Mr. William D. Grace, FCA
Partner
Price Waterhouse, Chartered Accountants
Edmonton

His Honour Clare L. Liden
Assistant Chief Judge
Provincial Court of Alberta

Mr. Robert A. McLaughlin
Retired Systems Analyst
Edmonton

Mr. Fred R. N. Snell, CA
Partner
Clarkson Gordon, Chartered Accountants

The Hon. Dick Johnston, FCA
Provincial Treasurer of Alberta

I wish to acknowledge the contributions of the Audit Committee during the review stage of the 1987-88 annual report.

The members of the Select Standing Committee on Legislative Offices are:

Mr. F.A. Stewart, MLA — Chairman
Mr. J.A. Gogo, MLA — Deputy Chairman
Mr. J.W. Ady, MLA
Dr. W.A. Buck, MLA
Mr. G. Clegg, MLA
Mr. J. Drobot, MLA
Dr. C.R. Elliott, MLA
Mr. D. Fox, MLA
Mr. G. Mitchell, MLA

I acknowledge the rapport with this Committee that has enhanced the Audit Office's accountability to the Legislature.

4.3 AUDIT APPROACHES

4.3.1 The audit approaches used by the Audit Office reflect the relative importance of my reporting responsibilities. Sections 18, 19 and 28 of the Auditor General Act prescribe my reporting responsibilities which are:

(i) to report on the annual financial statements of all departments, funds and Provincial agencies in accordance with generally accepted auditing standards, and

(ii) to report to management and, where appropriate, to the Legislative Assembly:

- observed instances of non-compliance with legislative authorities,
- situations where it is observed that assets are inadequately accounted for or improperly safeguarded,
- instances where it is observed that control and information systems and practices, including systems relating to economy and efficiency, are absent, inadequate or not being complied with,
- situations where it is observed that accounting policies and reporting practices are inappropriate or inadequate, and
- other matters considered by the Auditor General to be appropriate to report.

Section 18 of the Act requires all financial statements to be audited each year. The work necessary to report on these statements is considerable and consumes a major portion of the Audit Office's resources each year.

Sections 19 and 28 of the Act require me to report systems deficiencies, legislative non-compliance or inadequately safeguarded public assets, if they are observed and if I consider them to be significant. These sections of the Act do not require the Audit Office to examine each year every area, circumstance or system that could reveal problems of this nature.

An attest audit conducted in accordance with generally accepted auditing standards is designed primarily to report on the fair presentation of financial statements. It is not designed to find the various irregularities reportable under sections 19 and 28, though in practice some may come to the auditor's attention as a by-product of the work performed. I believe, however, that there is a legislative expectation for the work of my Office to extend beyond seeking reportable matters only as a by-product of adhering to the minimum requirements of generally accepted auditing standards. For this reason, annual financial audits are approached with three main objectives. In addition to the work designed to attest to the fair presentation of financial statements (the financial audit) the following work is undertaken:

- At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. During the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities. Any observed instances of non-compliance with the identified authorities are reported to management and, where appropriate, to the Legislative Assembly.

- Management control and information systems are examined on a selective basis. The Audit Office attempts to maximize the usefulness of its work by identifying for examination those systems and practices essential to the successful operation of an entity. The purpose of these examinations is to promote improvements in the systems management uses to achieve the objectives of the enterprise. This, however, should not be interpreted as auditing Government decisions and policies; these are correctly beyond the scope of a legislative auditor's mandate.

The scope of the Audit Office's annual audit activity as described above exceeds the minimum requirements of generally accepted auditing standards for financial audits. The approach, however, enables me to report more usefully to management and, where appropriate, to the Legislative Assembly.

Audit Methodologies

4.3.2 The Audit Office has developed several auditing methodologies and techniques to facilitate the conduct of its work. This was necessary in view of the extended systems auditing strategies outlined above which often present unique auditing challenges particularly where, as is usually the case, the audit entity makes extensive use of computers and complex data processing systems to maintain records and monitor the delivery of services and programs. PROBE — the generalized file interrogation system developed by the Audit Office — continues to be an indispensible tool in examinations of electronic data files and systems.

Many of the techniques adopted by the Audit Office emphasize the prevention of errors and irregularities, rather than attempting to be purely detective. I believe that diagnosing and eliminating weaknesses in accounting and other information systems will minimize the potential for loss and waste of public monies and resources.

Detection of Fraud and Error

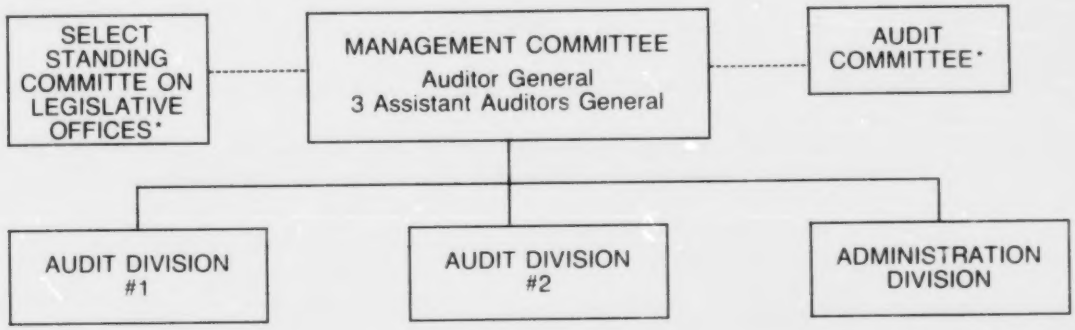
4.3.3 Before leaving the subject of audit approaches, and to avoid possible misunderstandings, it may be appropriate to elaborate on the application of generally accepted auditing standards to the detection of fraud and error.

In an examination made in accordance with generally accepted auditing standards, an auditor fulfills his professional responsibility by complying with those standards. When conducting an audit in accordance with generally accepted auditing standards, an auditor seeks reasonable assurance that fraud and error, which may be material to the financial statements or other accountability information, have not occurred or that, if they have occurred, they are corrected and appropriately reported.

When planning an audit, the auditor is responsible, within the inherent limitations of the auditing process, for considering the risk of fraud and error and being alert for circumstances that might cause him to suspect their existence. If at any time his suspicions are aroused, the auditor must perform additional procedures to confirm or dispel those suspicions.

4.4 ORGANIZATION OF THE AUDIT OFFICE

4.4.1 The organization of the Audit Office is as follows:



* see section 4.2.7 of this report.

The Management Committee

4.4.2 The Audit Office is administered by the Management Committee which sets and monitors the achievement of policies designed to discharge the Auditor General's legislatively prescribed responsibilities.

The Audit Divisions

4.4.3 Each of the Office's Audit Divisions is jointly administered by an Assistant Auditor General and an Executive Director. The Assistant Auditor General is accountable to the Management Committee for the Division.

The planning and execution of audits is the responsibility of the Audit Principals within each Division. Audit Principals carry out their responsibilities with the assistance of Audit Managers, EDP Audit Managers and Audit Supervisors. Each Audit Division has its own Staff Group comprising student auditors pursuing professional accounting designations.

The Administration Division

4.4.4 The Administration Division is jointly administered by an Assistant Auditor General and an Executive Director. The Assistant Auditor General is responsible to the Management Committee for the Division. The Division provides a variety of administrative services to the Audit Office.

The Division is responsible for the selection and hiring of staff, personnel, the audit management system, maintaining the Office library, and co-ordinating budgetary and accounting functions.It exercises quality control over all audit reports, financial statements, management letters and other output of the Audit Office. This includes monitoring for adherence with established policies and standards.

The professional practices and professional development functions are also performed by the Administration Division. These include establishing practice standards and policies, administering the Office's internal practice review program, maintaining the Audit Office Staff Manual and developing and presenting courses on audit related subjects.

The Administration Division is also responsible for co-ordinating the production of the Auditor General's Annual Report to the Legislative Assembly.

Audit Office Staff

4.4.5 I am pleased to acknowledge the efforts and professionalism of the staff of my Office who have contributed so significantly to this report.

Agents

4.4.6 The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act. The contributions of agents in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1988 were as follows:

Arthur Andersen & Co.
Bailey Lundell
Bevan, Halbert & Ginet
Carpenter & Company
Clarkson Gordon
Collins Barrow
Coopers & Lybrand
Cuthbertson Sandall & Partners
Dawson, Berezan & Partners
Deloitte Haskins & Sells
Fletcher, Mudryk & Co.
Hudson & Company
Johnston, Morrison, Hunter & Co.
Laventhol & Horwath/Sax, Zimmel, Stewart.
Matthew Craig Watts Davies
Mills Macleod Unrau Gerlock
Pannell Kerr MacGillivray
Peat Marwick
Price Waterhouse
Thorne Ernst & Whinney
Touche Ross & Co.
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

Audit Office Financial Statements

4.4.7 The audited financial statements of the Office of the Auditor General are reproduced in section 8 of the public accounts of the Province, in accordance with section 30(4) of the Auditor General Act.

APPENDIX 1

INDEX OF AUDIT ENTITIES

A. Entities audited pursuant to section 12(a) of the Auditor General Act

B. Entities audited pursuant to section 12(b) of the Auditor General Act

C. Entities audited pursuant to section 43 of the Irrigation Act

D. Crown-controlled organizations audited other than by the Auditor General

A. Entities audited pursuant to section 12(a) of the Auditor General Act

	Page in Public Accounts	References to Observations in this report
LEGISLATIVE ASSEMBLY:		
Legislative Assembly Office	2.3	2.3.1
Office of the Chief Electoral Officer	2.3	2.3.1
Office of the Ombudsman	2.3	2.3.1
ADVANCED EDUCATION:		
Department of Advanced Education	2.3	2.4.1
Regulated Funds (excluding trust funds):		
Students Loan Fund	5.59	2.4.3
Provincial Committees:		
Students Finance Board	6.4	2.4.2
Trust Funds:		
Advanced Education Endowment Fund	1.19	2.29.4
John Joseph Collett Memorial Scholarship Fund	1.19	2.29.4
Colleges:		
Alberta College of Art		2.4.17
Fairview College		2.4.13
Grande Prairie Regional College		2.4.17
Grant MacEwan Community College		2.4.14
Keyano College		2.4.17
Lakeland College		2.4.15
Lethbridge Community College		2.4.17
Medicine Hat College		2.4.17
Mount Royal College		2.4.17
Olds College		2.4.16
Red Deer College		2.4.17
Technical Institutes:		
Northern Alberta Institute of Technology		2.4.21
Southern Alberta Institute of Technology		2.4.19
Westerra Institute of Technology		2.4.20
Universities:		
Athabasca University		2.4.5
The University of Alberta		2.4.7
The University of Calgary		2.4.6
The University of Lethbridge		2.4.11
Other:		
Alberta Laser Institute		2.4.8
Alberta Telecommunications Research Centre		2.4.8
The Alberta Microelectronic Centre		2.4.8
The Arctic Institute of North America		2.4.11
The Banff Centre for Continuing Education		2.4.10
Centre for Frontier Engineering Research Institute		2.4.8
Chembiomed Ltd.		2.4.9
AGRICULTURE:		
Department of Agriculture	2.3	2.5.1
Regulated Funds (excluding trust funds):		

	Page in Public Accounts	References to Observations in this report
Crop Reinsurance Fund of Alberta	5.59	2.5.5
The Horned Cattle Purchases Act Trust Account	5.59	2.5.5
Livestock Identification and Brand Inspection Fund	5.59	2.5.5
Livestock Patrons' Assurance Fund	5.59	2.5.5
Stray Animals Act Fund	5.59	2.5.5
Provincial Corporations:		
Alberta Agricultural Development Corporation	6.6	2.5.2
Alberta Agricultural Research Institute	6.14	2.5.3
Alberta Agricultural Research Trust	6.17	2.5.5
Alberta Dairy Control Board	6.20	2.5.5
Alberta Hail and Crop Insurance Corporation	6.23	2.5.4
Irrigation Land Manager	6.30	2.5.5
Commercial Enterprises:		
Alberta Terminals Ltd.	7.3	2.5.5
Trust Funds:		
Claude Gallinger Memorial Fund	1.19	2.29.4
National Tripartite Price Stabilization Program Trust Account	1.19	2.29.4
Pennington Memorial Scholarship Fund	1.19	2.29.4
Thomas Caryk Memorial Scholarship Fund	1.19	2.29.4
Wheat Board Money Trust Account	1.19	2.5.5
ATTORNEY GENERAL:		
Department of the Attorney General	2.3	2.6.1
Regulated Funds (excluding Trust Funds):		
Chattel Security Registries Assurance Fund	5.59	2.6.2
Registrar's Assurance Fund	5.59	2.6.2
Commercial Enterprises:		
The Alberta General Insurance Company	7.9	2.6.2
Trust Funds:		
Land Titles Offices Trust	1.19	2.29.4
Maintenance Enforcement Trust	1.19	2.29.4
Public Trustee - Estates and Beneficiaries Trust Accounts	1.19	2.6.2
Special Reserve Fund (Public Trustee)	1.19	2.6.2
Various Courts and Sheriffs' Offices Trust	1.19	2.29.4
CAREER DEVELOPMENT AND EMPLOYMENT:		
Department of Career Development and Employment	2.3	2.7.1
COMMUNITY AND OCCUPATIONAL HEALTH		
Department of Community and Occupational Health	2.3	2.8.1
Provincial Corporations:		
Alberta Alcohol and Drug Abuse Commission	6.33	2.8.3
Commercial Enterprises:		
The Workers' Compensation Board	7.12	2.8.2
Trust Funds:		
Various Institutions Trust Accounts	1.19	2.29.4

	Page in Public Accounts	References to Observations in this report
CONSUMER AND CORPORATE AFFAIRS:		
Department of Consumer and Corporate Affairs	2.3	2.9.1
Trust Funds:		
Collection Practices Act Trust	1.19	2.29.4
Debtors Assistance Trust	1.19	2.29.4
Insurance Companies Trust	1.19	2.29.4
Orderly Payment of Debts	1.19	2.29.4
Securities Act Trust	1.19	2.29.4
CULTURE AND MULTICULTURALISM:		
Department of Culture and Multiculturalism	2.3	2.10.1
Revolving Funds:		
Culture and Multiculturalism Revolving Fund	4.3	2.10.3
Provincial Corporations:		
The Alberta Art Foundation	6.37	2.10.3
The Alberta Cultural Heritage Foundation	6.42	2.10.3
The Alberta Foundation for the Literary Arts	6.45	2.10.3
The Alberta Foundation for the Performing Arts	6.48	2.10.3
The Alberta Historical Resources Foundation	6.53	2.10.3
Glenbow-Alberta Institute	6.57	3.2.2 2.10.2
The Government House Foundation	6.63	2.10.3
Trust Funds:		
Fort Dunvegan Historical Society Trust Fund	1.19	2.29.4
Other:		
Glenbow Foundation		2.10.2
Luxton Museum Ltd.		2.10.2
ECONOMIC DEVELOPMENT AND TRADE:		
Department of Economic Development and Trade	2.3	2.11.1
Regulated Funds (excluding trust funds):		
Motion Picture Development Fund	5.59	2.11.4
Provincial Corporations:		
Alberta Motion Picture Development Corporation	6.66	2.11.4
Alberta Opportunity Company	6.71	2.11.3
Commercial Enterprises:		
Alberta Intermodal Services Ltd.	7.21	2.11.2
EDUCATION:		
Department of Education	2.3	2.12.1
Revolving Funds:		
Education Revolving Fund	4.7	2.12.2
Regulated funds (excluding trust funds):		
School Foundation Program Fund	5.3	2.12.2
Trust Funds:		
Expo '86 Student Travel Trust Fund	1.19	2.29.4
Federal French Language Grants Fund	1.19	2.29.4
Mildred Rowe Weston Estate Trust	1.19	2.29.4
School for the Deaf Donations	1.19	2.29.4

	Page in Public Accounts	References to Observations in this report
School for the Deaf Pupils Trust	1.19	2.29.4
Teachers' Retirement Fund	1.19	2.12.2
Other:		
Northland School Division No. 61		2.12.2
ENERGY:		
Department of Energy	2.3	2.13.1
Regulated Funds (excluding trust funds):		
Alberta Petroleum Incentives Program Fund	5.59	2.13.4
Provincial Corporations:		
Alberta Oil Sands Technology and Research Authority	6.77	2.13.2
Alberta Petroleum Marketing Commission	6.81	2.13.3
Natural Gas Pricing Agreement Act Fund	6.85	2.13.4
Natural Gas Pricing Agreement Market Development Fund	6.88	2.13.4
Take-or-pay Costs Sharing Fund	6.90	2.13.4
ENVIRONMENT:		
Department of the Environment	2.3	2.14.1
Revolving Funds:		
Water Resources Revolving Fund	4.11	2.14.2
Provincial Corporations:		
Alberta Environmental Research Trust	6.93	2.14.2
Alberta Special Waste Management Corporation	6.96	2.14.2
Environment Council of Alberta	6.101	2.14.2
Trust Funds:		
Surface Reclamation Fund	1.19	2.14.2
EXECUTIVE COUNCIL:		
Department of Executive Council	2.3	2.15.1
Provincial Corporations:		
Energy Resources Conservation Board	6.104	2.15.3
The Wild Rose Foundation	6.109	2.15.2
FEDERAL AND INTERGOVERNMENTAL AFFAIRS:		
Department of Federal and Intergovernmental Affairs	2.3	2.16.1
FORESTRY, LANDS AND WILDLIFE:		
Department of Forestry, Lands and Wildlife	2.3	2.17.1
Revolving Funds:		
Forestry, Lands and Wildlife Revolving Fund	4.14	2.17.3
Regulated Funds (excluding trust funds):		
Fish and Wildlife Trust Fund	5.59	2.17.2
Forest Development Research Trust Fund	5.59	2.17.3
Homestead Lease Loan Fund	5.59	2.17.3
Trust Funds:		
Junior Forest Warden Fund	1.19	2.29.4

	Page in Public Accounts	References to Observations in this report
HOSPITALS AND MEDICAL CARE:		
Department of Hospitals and Medical Care	2.3	2.18.1
Regulated Funds (excluding trust funds):		
Health Care Insurance Fund	5.6	2.18.2
Provincial Corporations:		
Alberta Urban Hospitals Project Management Ltd.	6.113	2.18.10
Provincial Committees:		
Edmonton Area Hospital Advisory Council Fund	6.116	2.18.10
Hospitals:		
Alberta Cancer Board		2.18.4
Alberta Children's Provincial General Hospital		2.18.5
Alberta Hospital Edmonton		2.18.6
Alberta Hospital Ponoka		2.18.10
Foothills Provincial General Hospital		2.18.7
Glenrose Rehabilitation Hospital		2.18.10
Northern Alberta Children's Hospital		2.18.10
University Hospitals Board		2.18.8
Foundations:		
Alberta Cancer Foundation	3.2.2	2.18.9
Alberta Hospital Edmonton Foundation	3.2.2	2.18.9
University Hospitals Foundation	3.2.2	2.18.9
LABOUR:		
Department of Labour	2.3	2.19.1
Revolving Funds:		
Personnel Administration Office Revolving Fund	4.18	2.19.2
Trust Funds:		
Long Term Disability Benefit Fund - Bargaining Unit	1.19	2.29.4
MUNICIPAL AFFAIRS:		
Department of Municipal Affairs	2.3	2.20.1
Regulated Funds (excluding trust funds):		
Alberta Planning Fund	5.59	2.20.5
Provincial Corporations:		
Alberta Mortgage and Housing Corporation	6.118	2.20.2
Trust Funds:		
Improvement Districts' Trust Account	1.19	3.2.4 2.20.3
Metis Population Betterment Trust Account	1.19	2.20.4
Metis Settlement Associations Grants Administration Fund	1.19	2.29.4
Metis Settlements Trust Fund	1.19	2.20.5
Special Areas Trust Account	1.19	2.20.5
PUBLIC WORKS, SUPPLY AND SERVICES:		
Department of Public Works, Supply and Services	2.3	2.21.1
Revolving Funds:		
Public Works, Supply and Services Revolving Fund	4.21	2.21.2

	Page in Public Accounts	References to Observations in this report	
Trust Funds:			
Public Works, Supply and Services Security Deposits Trust Fund	1.19		2.29.4
RECREATION AND PARKS:			
Department of Recreation and Parks	2.3		2.22.1
Revolving Funds:			
Recreation and Parks Revolving Fund	4.26		2.22.4
Provincial Corporations:			
Alberta Sport Council	6.128	3.2.2	2.22.2
The Recreation, Parks and Wildlife Foundation	6.134	3.2.2	2.22.3
Trust Funds:			
International Youth Year - 1985 Trust Fund	1.19		2.29.4
1987 Western Canada Games Trust Fund	1.19		2.29.4
SOCIAL SERVICES:			
Department of Social Services	2.3		2.23.1
Trust Funds:			
Child Welfare Family Allowance Trust	1.19		2.29.4
Child Welfare Trust	1.19		2.29.4
Various Institutions Trust Accounts	1.19		2.29.4
SOLICITOR GENERAL:			
Department of the Solicitor General	2.3		2.24.1
Regulated Funds (excluding trust funds):			
Motor Vehicle Accident Claims Fund	5.59		2.24.3
Provincial Corporations:			
Alberta Racing Commission	6.138		2.24.3
Commercial Enterprises:			
Alberta Liquor Control Board	7.25		2.24.2
Trust Funds:			
Correctional Institutions Trust Accounts	1.19		2.29.4
TECHNOLOGY, RESEARCH AND TELECOMMUNICATIONS:			
Department of Technology, Research and Telecommunications	2.3		2.25.1
Provincial Corporations:			
The Alberta Educational Communications Corporation	6.142	3.2.2	2.25.2
Alberta Research Council	6.148		2.25.4
Commercial Enterprises:			
The Alberta Government Telephones Commission	7.30		2.25.3
Subsidiary Companies:			
Alta Telecom International Ltd.	7.30		2.25.3
Alta Telecom, Inc.	7.30		2.25.3
Alta Telecom Licensing Corporation	7.30		2.25.3
Alta-Can Telecom Inc.	7.30		2.25.3
288922 Alberta Ltd.	7.30		2.25.3

	Page in Public Accounts	References to Observations in this report	
Trust Funds:			
The Alberta Government Telephones Employees' Group Life Insurance Trust Account	1.19		2.25.5
The Alberta Government Telephones Employees' Pension and Death Benefit Fund	1.19		2.25.5
The Alta Telecom International Employees' Group Life Insurance Trust Account			2.25.5
The Alta Telecom International Employees' Pension and Death Benefit Fund			2.25.5
Other:			
Alberta Heritage Foundation for Medical Research			2.25.5
TOURISM:			
Department of Tourism	2.3		2.26.1
TRANSPORTATION AND UTILITIES:			
Department of Transportation and Utilities	2.3		2.27.1
Revolving Funds:			
Gas Alberta Operating Fund	4.29		2.27.4
Transportation Revolving Fund	4.32		2.27.2
Regulated Funds (excluding trust funds):			
Natural Gas Rebates Fund	5.59		2.27.4
Rural Electrification Revolving Fund	5.59		2.27.3
Provincial Corporations:			
Alberta Electric Energy Marketing Agency	6.154		2.27.4
Alberta Resources Railway Corporation	6.157		2.27.4
TREASURY:			
Consolidated Financial Statements of the Province of Alberta	1.3	3.4	3.2.1
Financial Statements of the General Revenue Fund	2.3		2.28.1
Treasury Department	2.3		2.28.2
Revolving Funds:			
Land Purchase Fund	4.36		2.28.5
Treasury Revolving Fund	4.39		2.28.7
Regulated Funds (excluding trust funds):			
Alberta Capital Fund	5.10		2.28.7
Alberta Heritage Foundation for Medical Research Endowment Fund	5.19		2.28.7
Alberta Heritage Savings Trust Fund	5.24	3.2.3	2.28.3
Alberta Heritage Scholarship Fund	5.38		2.28.7
Alberta Provincial Corporation Loan Fund	5.59		2.28.7
Alberta Risk Management Fund	5.59		2.28.7
Farm Credit Stability Fund	5.43		2.28.4
Pension Fund	5.48		2.28.7
Small Business Term Assistance Fund	5.54		2.28.4
Utility Companies Income Tax Rebates Fund	5.59		2.28.7
Provincial Corporations:			
Alberta Municipal Financing Corporation	6.163		2.28.7

	Page in Public Accounts	References to Observations in this report
Commercial Enterprises:		
Treasury Branches Deposits Fund	7.38	2.28.6
Trust Funds:		
Bond and Coupon Accounts:		
Matured Interest	1.19	2.29.4
Unpresented Debentures	1.19	2.29.4
Consolidated Cash Investment Trust Fund	1.19	2.28.7
General Trust Account	1.19	2.28.7
A.L. Sifton Estate	1.19	2.29.4
Ultimate Heir Trust Fund "A"	1.19	2.29.4
Ultimate Heir Trust Fund "B"	1.19	2.29.4

B. Entities audited pursuant to section 12(b) of the Auditor General Act

	References to Observations in this report	
ACCESS Charitable Foundation of Alberta	3.2.2	2.29.2
Alberta Children's Hospital Research Centre		2.29.2
Foothills Hospital Employees' Charity Fund		2.29.2
Foothills Hospital Foundation	3.2.2	2.29.2
Glenrose Rehabilitation Hospital Employee Benevolent Fund		2.29.2
Glenrose Rehabilitation Hospital Employee Charities Fund		2.29.2
Grande Prairie Regional College Foundation	3.2.2	2.29.2
Olds College Foundation	3.2.2	2.29.2
Sulphur Development Institute of Canada (SUDIC)	3.2.2	2.29.2
The Friends of University Hospitals		2.29.2
The Trustees of the Academic Staff Benefits Plans of The University of Alberta		2.29.2
University of Alberta Hospitals Staff Benevolent Fund		2.29.2
University of Alberta Hospitals Staff Charities Fund		2.29.2

C. Entities audited pursuant to section 43 of the Irrigation Act

	References to Observations in this report
Aetna Irrigation District	2.29.1
Bow River Irrigation District	2.29.1
Eastern Irrigation District	2.29.1
Leavitt Irrigation District	2.29.1
Lethbridge Northern Irrigation District	2.29.1
Macleod Irrigation District	2.29.1
Magrath Irrigation District	2.29.1
Mountain View Irrigation District	2.29.1
Raymond Irrigation District	2.29.1
Ross Creek Irrigation District	2.29.1
St. Mary River Irrigation District	2.29.1

	References to Observations in this report
Taber Irrigation District	2.29.1
United Irrigation District	2.29.1
Western Irrigation District	2.29.1

D. Crown-controlled organizations audited other than by the Auditor General

	References to Observations in this report
North West Trust Company	2.30.1
354713 Alberta Ltd.	2.30.1

APPENDIX II

AUDITOR GENERAL ACT

CHAPTER A-49

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

September 1, 1983

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so

appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

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(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the pub-

lic interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explan-

ations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

1977 c56 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

1977 c56 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

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(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the

Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend

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the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30